

THE OFFER CLOSURES AT 3.00 p.m. ON 17th APRIL, 1990

911474

IMPORTANT — THIS DOCUMENT IS OF VALUE AND IS NEGOTIABLE. If you are in any doubt about the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services Act 1986. If you have sold any of your shares in Castle Communications PLC other than ex rights, please consult the stockbroker, bank or other agent through whom the sale was effected immediately.

ALL ENQUIRIES RELATING TO THIS PROVISIONAL ALLOTMENT LETTER SHOULD BE REFERRED TO STENTIFORD CLOSE REGISTRARS LIMITED, BROSELEY HOUSE, NEWLANDS DRIVE, WITHAM, ESSEX CM8 2UL telephone 0376 513753 (new issues department), quoting the Provisional Allotment Letter number. Copies of this Provisional Allotment Letter and the circular to shareholders dated 23rd March, 1990 (the Circular) have been deposited with the Registrar of Companies in England. Application has been made to the Council of the Stock Exchange for the grant of permission for the new Ordinary shares to be dealt in at the Unlisted Securities Market. It is expected that such permission will become effective on 26th March, 1990. No dealings may occur until permission is received, and if this has not become effective on or before midday on 26th March, 1990 this document will be of no value and will be of no effect. It is emphasised that no application has been made for these securities to be admitted to listing. Terms defined in the Circular shall, unless the context otherwise requires, bear the same meaning as in this Provisional Allotment Letter.

<p>At Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL</p>		Latest date (by 3.00 p.m. in each case) FOR	11th April, 1990
		Splitting (not paid)	11th April, 1990
<p>Joint allottees (if any)</p>		Acceptance and payment in full	17th April, 1990
		Splitting (fully paid)	11th May, 1990
<p>Share certificates to be despatched by (after which date Provisional Allotment Letters will cease to be valid)</p>		Registration of renunciation	10th May, 1990

SERIAL NUMBER

(1) Ordinary shares of 5p each registered in your name on 15th March, 1990	(2) Number of new Ordinary Shares of 5p each provisionally allotted to you	(3) Amount payable in full on acceptance not later than 3.00 p.m. on 17th April, 1990

PROVISIONAL ALLOTMENT LETTER NUMBER

CASTLE COMMUNICATIONS PLC

(Registered in England No 911474)

RIGHTS ISSUE OF 1,132,056 NEW ORDINARY SHARES OF 5p EACH AT 400p PER SHARE PAYABLE IN FULL ON ACCEPTANCE NOT LATER THAN 3.00 p.m. ON 17th APRIL, 1990

PROVISIONAL ALLOTMENT LETTER

23rd March, 1990

Dear Shareholder,

1. **PROVISIONAL ALLOTMENT** — In accordance with the terms of the Circular, the Directors of the Company have provisionally allotted to you the number of new Ordinary shares stated in Box (2) above on the basis of 2 new Ordinary shares for every 9 Ordinary shares held in your name at the close of business on 15th March, 1990 on the terms hereof and of the Circular and subject to the Memorandum and Articles of Association of the Company. The new Ordinary shares, when allotted and fully paid, will rank pari passu in all respects with the existing Ordinary shares save for the right to the interim dividend of 4.0p net per Ordinary share in respect of the six months ended 31st December, 1989. Fractions of new Ordinary shares will not be allotted but will be aggregated and sold in the market for the benefit of the Company.

2. **ACCEPTANCE AND PAYMENT** — If you wish to accept the new Ordinary shares provisionally allotted to you, this letter must be forwarded to STENTIFORD CLOSE REGISTRARS LIMITED, BROSELEY HOUSE, NEWLANDS DRIVE, WITHAM, ESSEX CM8 2UL, accompanied by a remittance for the amount shown in Box (3) above, so as to reach them not later than 3.00 p.m. on 17th April, 1990. Payment of the amount due will constitute an acceptance of the provisional allotment. This letter will then be appropriately receipted and returned to the person lodging it. If this letter is not so lodged by 3.00 p.m. on 17th April, 1990 the provisional allotment will be deemed to have been declined and will lapse. Any new Ordinary shares not taken up by 3.00 p.m. on 17th April, 1990 and which, in aggregate, can be sold at a net premium (after deducting the expenses of sale) in excess of the issue price, will be sold in the market not later than 18th April, 1990 and the excess will be remitted *pro rata* to the provisional allottees originally entitled thereto except that net proceeds amounting to less than £2.50 per holding will not be distributed but will be retained by the Company for its own benefit.

Cheques should be made payable to Stentiford Close Registrars Limited and crossed "Not Negotiable—Castle Communications".

All payments must be made by cheque or bankers' draft drawn in sterling on a bank or branch thereof in England, Scotland, Wales, Northern Ireland, the Channel Islands or the Isle of Man which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques or bankers' drafts to be cleared through facilities provided for the members of those Clearing Houses and must bear the appropriate sorting code number in the top right-hand corner.

If you are the person to whom this Provisional Allotment Letter is addressed and all the Ordinary shares to which it relates are to be registered in your name, you need only (after paying the amount due on acceptance) keep this Provisional Allotment Letter until you receive your definitive share certificate which will be despatched not later than 31st May, 1990.

3. **RENUNCIATION, SPLITTING, CONSOLIDATION AND REGISTRATION OF RENUNCIATIONS** — You may accept all or any of the new Ordinary shares offered to you or dispose of your rights to all or any of them. If the new Ordinary shares allotted are not accepted and the amount due on acceptance is not paid at or before 3.00 p.m. on 17th April, 1990 this Provisional Allotment Letter will be cancelled and will be of no value for any purpose. Instructions covering Renunciation, Splitting, Consolidation and Registration of Renunciations are set out overleaf and are an integral part of this Provisional Allotment Letter.

4. **DEFINITIVE SHARE CERTIFICATES** — A definitive share certificate will be despatched not later than 31st May, 1990 to the first named registered holder at the address given in the register of members at the risk of the person(s) entitled thereto. If, between 10th May, 1990 and 31st May, 1990, this Provisional Allotment Letter or, when it has been renounced, the receipt issued therefor is lodged with STENTIFORD CLOSE REGISTRARS LIMITED, BROSELEY HOUSE, NEWLANDS DRIVE, WITHAM, ESSEX CM8 2UL showing the name and address of the agent in the box at the foot of page 2, the share certificate will be despatched to the agent not later than 31st May, 1990 at the risk of the person(s) entitled thereto.

After 31st May, 1990 and pending the issue of share certificates, instruments of transfer will be certified by STENTIFORD CLOSE REGISTRARS LIMITED, against delivery of fully paid Provisional Allotment Letters, or, in cases of renunciation, against delivery of receipts issued for renounced Provisional Allotment Letters.

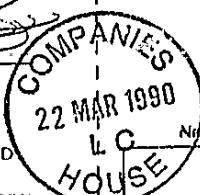
5. **STAMP DUTY RESERVE TAX** — A purchaser of the new Ordinary shares comprised in this Provisional Allotment Letter on or before 10th May, 1990 will normally be liable to stamp duty reserve tax at the rate of 50p per £100 (or part thereof) of the consideration paid. You need take no action if that tax has been included in a contract note issued by the bank, stockbroker or other financial intermediary through whom you purchased such new Ordinary shares or the right thereto. In any other case, you should immediately contact the Inland Revenue Stamp Office in order to pay the tax. The transfer on sale of the new Ordinary shares comprised in this Provisional Allotment Letter by transfer in the common form after 3.00 p.m. on 10th May, 1990 will attract ad valorem stamp duty at the rate of 50p per £100 (or part thereof) of the consideration paid. If an unconditional agreement made after this date to transfer the new Ordinary shares comprised in this Provisional Allotment Letter is not completed by a transfer which has been duly stamped within 2 months of the date of the agreement such agreement will attract stamp duty reserve tax which can be reclaimed when the transfer is itself duly stamped.

6. **OVERSEAS SHAREHOLDERS** — The attention of shareholders with registered addresses overseas is drawn to paragraph 6 of Part I of the Circular.

Registered Office:
15 Northfields Prospect,
Putney Bridge Road,
London SW18 1PE

By Order of the Board
C. V. Dane, Secretary

NOT TO BE DETACHED
RECEIVED THE AMOUNT DUE
ON ACCEPTANCE
Stamp and signature of
STENTIFORD CLOSE REGISTRARS LIMITED



CASTLE COMMUNICATIONS PLC

CANCELLED

New Shares

Amount payable

Allotment No.

Date

1. **RENUNCIATION IN WHOLE.**—If you wish to dispose of all the new Ordinary shares comprised in this Provisional Allotment letter in favour of one person (or several persons as joint holders), you must date and sign Form X (unless marked "Original duly reissued") and deliver this letter to the remittance agent or to the stockbroker or other agent who has acted for you in the transaction.

2. **SPLITTING.**—If you wish to have some only of the new Ordinary shares to which this Provisional Assignment Letter relative registered in your name(s) and to dispose of the remainder or if you wish to dispose of all the new Ordinary shares but not all to the same person, you must date, sign and stamp Form X (unless marked "Original duly renounced") and lodge this letter, not paid, not later than 3.00 p.m. on 11th April, 1990 or, if duly paid, not later than 3.00 p.m. on 10th May, 1990, with STENFORD CREDIT REGISTRARS LIMITED, BROOKLYN HOUSE, NEWLANDS DRIVE, VILLIAGE, ESSEX, CHA2 2UL to be split, stating the number of split Provisional Assignment Letters ("Split Letters") required and the number of new Ordinary shares to be covered by each. On receipt of the Split Letters you should deal with the one relating to any new Ordinary shares to be retained by you in accordance with the procedure for "Acceptance and Payment" overhead and deliver the others to the renounee(s) or to the stockbroker or other agent who has acted for you in the transaction. Form X (with Split Letters with the stamp) "Original duly renounced".

3. **CONSOLIDATION.**--The new Ordinary shares comprised in several fully paid Provisional Allotment Letters may be registered in the name(s) of one holder or joint holders. Form Y and the Consolidation Listing Form are completed on one Letter ("the Principal Letter") by entering particulars of all the other Letters thereon, and all the Letters are lodged together. All the Provisional Allotment Letters consolidated in this way must be duly renounced and bear the Serial Number of the Principal Letter in the space provided.

Principal letter in the space provided.

4. **REGISTRATION UNDER RENOUNCED OR SPLIT LETTERS.**—If this Provisional Allotment Letter has been renounced or is a Split Letter and your name(s) does (do) NOT appear above, Form T must be completed and this Provisional Allotment Letter must be lodged at or before 3.00 p.m., on 10th May, 1990, provided payment has been made at or before 3.00 p.m. on 17th April, 1990 with STINTFORD CLOSE REGISTRARS (LIMITED), BROSELYNNE, NEWLANDS (LONDON), WITLHAM, ESSEX CB8 2UL who will acknowledge receipt to the person(s) so lodging. After such date the new Ordinary shares will only be transferable in the usual common form, such transfer attracting stamp duty.

5. **GENERAL**—Surrender of this letter (a) with Form X purporting to have been signed by the allottee(s) or, in the case of a Split Letter, stamped "Original duly renounced"; and (b) where applicable with Form Y duly completed, shall be conclusive evidence in favour of the Company, and Standard Close Registrars Limited (if) the title of the person lodging it to deal with the same and to receive Split Letters and/or a share certificate and (ii) the authority of the person completing Form Y, as the case may be. When documents are received through the post, they, or the documents in lieu issued in exchange, will be returned through the post at the risk of the person(s) entitled thereto.

(Available until 2030 on 28th Nov 2020)

I/We hereby renounce my/our right to the new Ordinary shares comprised in this Provisional Allotment Letter in favour of the person(s) named in the Registration Application Form (Form Y) relating to or including such new Ordinary shares

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413

{3}.

(2)

(-3)

All joint allottees must sign. A corporation should affix its seal.

Forms of renunciation on split provisional allotment letters will be marked "Original duly renounced".

(Available until 3 00 p.m. on 10th May, 1990)

THIS FORM SHOULD BE COMPLETED ONLY IN CASE OF RENUNCIATION

CONSOLIDATION LISTING FORM	
Serial No. of Provisional Allotment Letter	Number of Shares
1	1
2	2
3	3
4	4
5	5
6	6
7	7
8	8
9	9
10	10
11	11
12	12
13	13
14	14
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90	90
91	91
92	92
93	93
94	94
95	95
96	96
97	97
98	98
99	99
100	100
Total Number of Shares	

Serial No. of Principal Letter

I/We request registration in the above name(s) of the new Ordinary shares specified in this Letter and in the several Provisional Allotment Letters (if any) detailed in the Consolidation Listing Form totalling new Ordinary shares.

Stamp or name and address of person(s) lodging this form	

*Insert the number of new Ordinary shares to be registered, which must equal the number of new Ordinary shares stated in Box 2 overleaf, or if the consolidation listing form is used the total entered in that form.

For use by **STENNISCORD CLOSE REGISTRARS LIMITED**
 Lodged in exchange for Share Certificate by

911474

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

If you have sold any of your shares in Castle Communications PLC (other than ex rights), please consult the stockbroker, bank or other agent through whom the sale was effected in order that this document and the enclosed Provisional Allotment Letter may, if appropriate, be transmitted to the purchaser.

Two copies of this document, having attached copies of the Provisional Allotment Letter and the letter of consent referred to in paragraph 12(i) of Part IV below, have been delivered to the Registrar of Companies in England.

Application has been made to the Council of The Stock Exchange for the grant of permission to deal in the new Ordinary shares in the Unlisted Securities Market. It is emphasised that no application has been made for these securities to be admitted to Listing.

The Provisional Allotment Letters and the new Ordinary shares have not been and will not be registered under the United States Securities Act of 1933, as amended, and they may not, as part of their distribution, be offered, sold, renounced or delivered, directly or indirectly, in the United States or to North American persons (each as defined in this document).

CASTLE COMMUNICATIONS PLC
BY:

DIRECTOR

DIRECTOR

Castle Communications PLC

Rights Issue

of

1,132,856 Ordinary shares of 5p each

at 400p per share

The latest time for acceptance and payment under the Rights Issue is 3.00 p.m. on Tuesday 17th April, 1990. The procedure for acceptance is set out on page 5.



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TIMETABLE OF PRINCIPAL EVENTS

1990

Record date for entitlement to new Ordinary shares	15th March
Provisional Allotment Letters posted	23rd March
Dealings in new Ordinary shares commence, nil paid	26th March
Dealings in existing Ordinary shares ex-rights and ex-dividend	26th March
Record date for interim dividend	5th April
Latest time and date for splitting, nil paid	3.00 p.m. on 11th April
Latest time and date for acceptance and payment in full	3.00 p.m. on 17th April
Dealings in new Ordinary shares commence, fully paid	18th April
Interim dividend paid	26th April
Latest time and date for splitting, fully paid	3.00 p.m. on 8th May
Latest time and date for registration of renunciation	3.00 p.m. on 10th May
Latest date definitive share certificates for new Ordinary shares will be despatched	31st May

If you have any questions on the procedure for acceptance and payment you should contact Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL, telephone: 0376 515755 (new issues department).



23rd March, 1990

To the Ordinary shareholders and, for information only, to the Redeemable Preference shareholders and participants in the Castle Communications Share Option Scheme

Dear Shareholder,

Rights Issue of 1,132,856 new Ordinary shares of 5p each

Your Directors announced on 22nd March, 1990 a Rights Issue of 1,132,856 new Ordinary shares of 5p each on the basis of 2 new Ordinary shares for every 9 Ordinary shares held on 15th March, 1990 at 400p per share. The Rights Issue, which has been underwritten by Mathesons and Schroders, will raise approximately £4.3 million, net of expenses. The purpose of this letter is to provide you with details of the issue and to explain why your Board considers it to be in the best interests of the Company.

The announcement of the Interim Results of your Company for the six months ended 31st December, 1989 was also made yesterday. The text of this announcement is set out in Part III of this document.

Reasons for the Issue

Since the Company's issue of Ordinary shares and Redeemable Preference shares in January 1989, the expansion of both turnover and profits has been rapid. The results for the six-month period to December 1989 show an increase in turnover of 56 per cent. and pre-tax profit of 53 per cent. over the corresponding period in 1988. The increase in sales has come from an expansion in both the Group's video and music activities. Major sources of this increase in business include growth from sell-through video interests, expansion from the principal UK music labels, promising initial sales from Castle Communications Australasia and the development of both music and video licensing using the Group's catalogues of copyrights.

Your Directors have reviewed prospects in the markets in which the Group operates and consider that there are continuing opportunities for profitable expansion.

Among the particular opportunities identified are:

- Scope for further growth in the Group's sell-through video interests in the UK and Europe. This includes expansion of the Group's existing Castle Vision and Castle Hendring labels and the development of two recently-established labels, Castle Music Pictures, which concentrates on music videos, and Castle Pictures, which sells videos of cinematic films.
- The continuing exploitation of music copyrights worldwide.
- The development of the newly-established subsidiaries in Australia, West Germany and Switzerland, by the expansion of their own music and video labels.

Expansion in the above areas will require an investment in working capital and, in particular, in the acquisition of additional media rights either on a licensed or outright basis. In order to provide this working capital, and to allow flexibility for financing future growth, it is proposed to raise approximately £4.3 million (net) via a rights issue.

Current trading and prospects

During the six months ended 31st December, 1989 the Group has benefited from a rising market share in the rapidly growing UK sell-through video market, continued to build sales from its music activities and seen particularly encouraging results from the recently-established Australian subsidiary.

In addition to developing the Group's current activities in its existing markets, the Directors intend to continue to increase the range of media rights which the Group exploits and to expand its presence in foreign markets where conditions appear favourable. In recent months, there has been a growing realisation in the marketplace of the value of owning media copyrights. It is the Directors' intention to maximise profits from those copyrights the Group owns and to use the Group's position in the entertainment industry to acquire further copyrights, or in some instances originate copyrights where this can be done with limited financial exposure.

Trading prospects appear very attractive as the major markets in which the Group operates continue to offer excellent opportunities and your Directors view the future with great confidence.

Action to be taken

Qualifying Shareholders will find enclosed a Provisional Allotment Letter containing full details regarding acceptance and payment, renunciation, splitting and registration. **The latest date for the return of Provisional Allotment Letters and payment is 3.00 p.m. on 17th April, 1990.** Further details regarding the procedure for acceptance are set out in Part I of this document.

The Directors, who have been advised by Schroders, believe that the Rights Issue is in the best interests of the Group. The Directors, who together own 832,258 Ordinary shares, representing 16.3 per cent. of the issued Ordinary shares, intend to sell nil paid, if a premium can be obtained in the market over the expenses of the sale, such part of their entitlements as will allow them to take up the balance of their rights.

Yours faithfully
TERRY SHAND
Chairman

PART I

Terms and conditions of the Rights Issue

1. Details of the Rights Issue

The new Ordinary shares are being offered at 400p by way of rights to shareholders on the register at the close of business on 15th March, 1990 on the following basis and otherwise as set out herein:

For every 9 Ordinary shares held

2 new Ordinary shares at 400p

and so in proportion for any greater number of Ordinary shares held.

New Ordinary shares representing fractional entitlements will not be allotted to shareholders but will be aggregated and, if a premium over the expenses of sale can be obtained, will be sold in the market as soon as practicable after dealings in the new Ordinary shares commence, nil paid. The net proceeds will not be distributed but will be retained for the benefit of the Company.

The new Ordinary shares will, when fully paid, rank *pari passu* in all respects with the Ordinary shares now in issue save for the right to the interim dividend of 4.0p net per Ordinary share in respect of the six months ended 31st December, 1989, which will be paid on 26th April, 1990 to shareholders on the register as at the close of business on 5th April, 1990.

Application has been made to the Council of The Stock Exchange for permission for the new Ordinary shares to be dealt in in the Unlisted Securities Market. Subject to such permission being given dealings in the new Ordinary shares are expected to commence, nil paid, on 26th March, 1990.

The attention of overseas shareholders is drawn to paragraph 6 below.

2. Action to be taken

(a) *Procedure for acceptance and payment*

The Provisional Allotment Letter for the number of new Ordinary shares provisionally allotted to you is enclosed with this document. The Provisional Allotment Letter contains full details regarding acceptance and payment, splitting, renunciation and registration.

To take up your entitlement in whole or in part, you must lodge your Provisional Allotment Letter in accordance with the instructions set out therein, together with a remittance for the full amount, with Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL, not later than 3.00 p.m. on 17th April, 1990. A first-class reply-paid envelope is enclosed for this purpose.

Cheques must be in pounds sterling drawn on a bank in the United Kingdom, made payable to "Stentiford Close Registrars Limited" and crossed "Not Negotiable—Castle Communications". No interest will be allowed on payments made before they are due. All enquiries in connection with the Provisional Allotment Letters should be addressed to Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL, telephone 0376 515755 (new issues department). Any person returning a Provisional Allotment Letter with a remittance in the form of a cheque warrants that the cheque will be cleared on the first presentation.

(b) *Dealings in nil paid rights*

Dealings in the Unlisted Securities Market in the new Ordinary shares are expected to commence, nil paid, on 26th March, 1990. A transfer of such rights can be made by the splitting of or the renunciation of the Provisional Allotment Letter or, in the case of any person in whose favour the rights have been renounced, by delivery of such letter intact to the transferee, without payment for the shares provisionally allotted, up to 3.00 p.m. on 17th April, 1990.

(c) *Dealings in fully paid rights*

After acceptance of the provisional allotment in accordance with the provisions set out in this document and the Provisional Allotment Letter, the fully paid rights to the new Ordinary

shares may be transferred by renunciation of the relevant Provisional Allotment Letter and delivery of the same to Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL, by 3.00 p.m. on 10th May, 1990. Thereafter, the new Ordinary shares will be registered and will be transferable by instrument of transfer.

Dealings in the Unlisted Securities Market in the new Ordinary shares are expected to commence, fully paid, on 18th April, 1990.

(d) Renunciation and splitting

A Qualifying Shareholder originally entitled to a provisional allotment of new Ordinary shares who wishes to transfer all the shares comprised in a Provisional Allotment Letter must complete and sign Form X on such letter and hand the entire letter to the transferee or to the broker or bank who acted for such shareholder in the transaction.

If the shareholder wishes to have some only of such shares registered in his or her name and to transfer the remainder, or wishes to transfer all the shares but to different persons, he or she may have the letter split, for which purpose he or she must complete and sign Form X on such letter. The letter must then be lodged with Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL, not later than 3.00 p.m. on 11th April, 1990 if nil paid or 3.00 p.m. on 8th May, 1990 if fully paid, to be cancelled and exchanged for the split letters required. The number of split letters required and the number of shares to be comprised in each should be stated in an accompanying letter. Form X on split letters will be marked "Original duly renounced" before issue.

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

The renounee or his agent must complete Form Y on the Provisional Allotment Letter and lodge the entire letter with Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL, before 3.00 pm on 10th May, 1990. Registration cannot be effected unless the letter is fully paid.

(f) Share certificates

The new Ordinary shares will be issued in registered form on definitive share certificates. Share certificates will be despatched no later than 31st May, 1990 to the persons entitled to them. After 17th April, 1990 and pending the issue of definitive share certificates, instruments of transfer will be certified by Stentiford Close Registrars Limited against lodgement of fully-paid letters and/or against fully-paid and renounced Provisional Allotment Letters in its possession. After 31st May, 1990 Provisional Allotment Letters will cease to be valid for any purpose whatsoever.

(g) Posting

All documents and cheques posted by the Company or on its behalf to the persons entitled to them will be posted at those persons' sole risk.

3. Procedure in respect of Rights not taken up

If payment in full for an entitlement to new Ordinary shares is not received by 3.00 p.m. on 17th April, 1990, that provisional allotment will be deemed to have been declined and will be cancelled. Any new Ordinary shares not taken up by 3.00 p.m. on 17th April, 1990 will be sold in the market not later than 3.00 p.m. on 18th April, 1990 if a net premium, after deduction of the expenses of sale, over the amount payable on acceptance can be obtained. Any net proceeds will be distributed *pro rata* among the Qualifying Shareholders to whom such new Ordinary shares were provisionally allotted, by cheque at their risk, except that amounts of less than £2.50 will not be distributed but will be retained for the benefit of the Company.

4. The Share Option Scheme

In accordance with the rules of the Share Option Scheme, the Directors propose to make adjustments to the options and to the numerical limits thereof to take account of the Rights Issue. Such adjustments will be subject to a written certificate of confirmation from the auditors of the Company, that such adjustments are, in their opinion, fair and reasonable.

5. Taxation

The Directors have been advised, on the basis of the law presently in force, as follows:

(a) *Capital gains tax*

For the purposes of United Kingdom taxation of capital gains, the amount of the subscription monies paid for the new Ordinary shares taken up by a Qualifying Shareholder will constitute an addition to the base cost of a Qualifying Shareholder's appropriate holding. The new Ordinary shares which are so taken up will be added to that Qualifying Shareholder's existing shareholding and they will be treated as though they had been acquired at the same time as the existing shareholding. The subscription monies will be indexed from the date on which payment of the subscription monies for the new Ordinary shares was made. A Qualifying Shareholder may, depending on his or her circumstances, incur a liability to taxation if he or she sells all or some of the new Ordinary shares allotted to him or her, or his or her rights to such shares, or allows his or her rights to lapse and receives a cash payment in respect of such shares.

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

No stamp duty or stamp duty reserve tax will be payable on the issue of Provisional Allotment Letters or split Letters of Allotment.

A person who purchases rights to shares represented by a Provisional Allotment Letter on or before the latest time for registration of renunciation will not be liable to stamp duty but will (except in the case of purchases by charities and sales to certain market makers, brokers and dealers) be liable to stamp duty reserve tax at the rate of 50p for every £100 or part of £100 of the actual consideration paid. This charge will be borne by the purchaser or transferee and, where a purchase is effected through a stockbroker or other financial intermediary, will be accounted for by that person.

The transfer or sale of new Ordinary shares represented by a Provisional Allotment Letter after the last date for registration of renunciation will be subject to *ad valorem* stamp duty (or, if an unconditional agreement to transfer the letter is not completed by a duly stamped transfer within two months, stamp duty reserve tax) in each case at the rate of 50p for every £100 or part £100 of the actual consideration paid.

No stamp duty or stamp duty reserve tax will be payable on the registration of the original holders of Provisional Allotment Letters or their renounees.

These comments are intended only as a general guide to the current tax position. Any person who is in any doubt as to his or her tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult his or her own professional adviser.

6. Overseas shareholders

(a) *General*

It is the responsibility of all persons resident outside the United Kingdom who wish to apply for new Ordinary 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 relevant formalities.

(b) *United States of America and Canada*

The Provisional Allotment Letters and the new Ordinary shares have not been and will not be registered under the United States Securities Act of 1933, the securities laws of any state or other jurisdiction of the United States, nor under the securities legislation of any province of Canada, and, except in a transaction which is exempt from or complies with the registration requirements of such legislation, the Provisional Allotment Letters and the new Ordinary shares may not be directly or indirectly offered or sold in the United States or Canada.

Therefore, the new Ordinary shares are not being offered and Provisional Allotment Letters are not being sent to any shareholder with a registered address in the United States or Canada,

unless such shareholder satisfies the Company (by such means as the Company may reasonably require, including the provision of an opinion of counsel) that an allotment is permitted under an exemption from the registration requirements of the securities legislation referred to above. If a Provisional Allotment Letter is received (whether in the United States, Canada or elsewhere) by a North American person, or an agent of a North American person, other than one who receives the letter under such an exemption, he or she will not be entitled and must not seek to take up his or her entitlements.

Payment under a Provisional Allotment Letter will constitute a declaration that the person entitled to the same is not a North American person and an agreement not to offer or sell, directly or indirectly, any of the new Ordinary shares in the United States or Canada or to or for the benefit of any North American person as part of the distribution of the new Ordinary shares. In addition, completion of the Registration Application Form (Form Y) will constitute a declaration that the person in whose name registration is applied for is not a North American person and that he or she does not hold and has not acquired the new Ordinary shares comprised in the Provisional Allotment Letter for the account or benefit of a North American person with a view to the offer, sale or delivery, directly or indirectly, of any new Ordinary share in the United States or Canada or to or for the account of a North American person.

If the latter declaration cannot be made, the shares comprised in the Provisional Allotment Letter will be registered in the name of the original allottee. In the case of a North American person who satisfies the Company that he or she is taking up his or her rights pursuant to an exemption from the registration requirements of the relevant securities legislation referred to above, the Company will require different declarations from those set out above.

(c) Other overseas territories

Persons resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up the new Ordinary shares provisionally allotted to them. All payments must be in pounds sterling.

(d) Sales of rights

In cases where overseas Qualifying Shareholders are unable to take up new Ordinary shares provisionally allotted to them, such shares will be sold in the market for the benefit of such persons or of the Company as described under "Procedure in respect of Rights not taken up" in paragraph 3 above.

PART II

Pro forma statement of consolidated net assets

The following is an illustrative pro forma statement of the consolidated net assets of the Group following the Rights Issue. The figures are based on the consolidated balance sheet of the Group as at 30th June, 1989.

	<i>As at 30th June, 1989 £'000</i>
Fixed Assets	
Intangible assets	3,276
Tangible assets	1,146
	<hr/> 4,422
Current Assets	
Stocks	3,142
Debtors	12,671
Cash at bank and in hand	89
	<hr/> 15,902
Creditors – amounts falling due within one year	<hr/> 11,056
Net Current Assets	<hr/> 4,846
Total Assets less Current Liabilities	<hr/> 9,268
Creditors – amounts falling due after more than one year	2,134
Provisions for Liabilities and Charges	57
	<hr/> 7,077
Net Assets	7,077
Proceeds, less the estimated expenses, of the Rights Issue	4,315
	<hr/> 11,392
Pro forma net assets post Rights Issue	<hr/> <hr/> 11,392

PART III

Announcement of interim results

The following has been extracted from the announcement of interim results for the six months ended 31st December, 1989, released yesterday:

Chairman's Statement

The Group's historical pattern of rapid growth continued in the first half of the financial year, with turnover up 56 per cent., pre-tax profits up 53 per cent. and earnings per share up 16 per cent. over the same period last year. In achieving this growth the major contributing factors were substantial increases in sales in UK sell-through video activities, steady expansion from the core UK music labels, a very encouraging level of profits from the new Australian subsidiary and the development of both music and video licensing using the Group's catalogues of copyrights. I am pleased to announce that the Directors have declared an interim dividend of 4.0p per share, an increase over last year of 14.3 per cent.

The Group was able to benefit from the rapid growth of the sell-through video market in the UK, and built its market share through the release of over one hundred new titles including sports programmes such as *"Kenny Dalglish—Portrait of a Natural Footballer"*, episodes from television series such as *"The New Statesman"*, and music titles including *"The Doors in Europe"*. The sell-through market also grew rapidly, albeit from a lower base, in Scandinavia where considerable success was achieved from releases of videos of children's characters such as Yogi Bear and the Flintstones and also from music titles including the new releases by rock bands such as Pink Floyd and Pet Shop Boys.

The Group's video rental subsidiary in the UK had a disappointing period and produced a trading loss. However, following a restructuring, which was completed by the period end, the appointment of a new management team and the launch of a new sell-through video division, your Directors are confident that trading will improve substantially in this subsidiary in the second half of the year.

The music division continued its expansion with an increasing proportion of sales deriving from compact discs as opposed to vinyl records. The period saw the launch of the Group's own sales force for music products, much greater integration in the running of the music subsidiaries, and the launch of a new division, Sequel Records, concentrating on specialist reissues and compilations. Also some benefits from the use of the PRT and Bronze catalogues were seen in the period as release schedules included titles from these sources. A particularly pleasing achievement for the music division was the launch of Castle Communications Australasia, which traded successfully, and drawing on local management and strong backing from the holding company produced profits in its first six months' trading.

Outlook for the future

Your Directors intend to expand the catalogue of copyrights owned by the Group, and to continue to develop the new subsidiaries in West Germany and Australia.

Trading prospects appear very attractive, as the major markets in which the Group operates offer excellent opportunities and the existing management team has been supplemented by new talent. Accordingly your Directors view the future with great confidence.

Terry Shand
Chairman

**Unaudited interim results for the
six months ended 31st December, 1989**

	<i>Note</i>	<i>Six months to 31.12.89 £'000</i>	<i>Six months to 31.12.88 £'000</i>	<i>12 months to 30.6.89 £'000</i>
Turnover		<u>14,487</u>	<u>9,288</u>	<u>20,944</u>
Profit on ordinary activities before taxation		1,232	803	1,788
Taxation		<u>(429)</u>	<u>(304)</u>	<u>(582)</u>
Profit on ordinary activities after taxation		803	499	1,206
Minority interests		<u>(22)</u>	<u>(2)</u>	<u>(4)</u>
Profit attributable to the members		781	497	1,202
Dividends		<u>(238)</u>	<u>(152)</u>	<u>(434)</u>
Retained profit		<u>543</u>	<u>345</u>	<u>768</u>
Earnings per Ordinary share	3	14.7p	12.7p	28.5p
Dividend per Ordinary share	4	4.0p	3.5p	8.5p

Notes:

- (1) The figures for the year ended 30th June, 1989 are an abridged version of the Group Accounts which carried an unqualified audit report and which have been filed with the Registrar of Companies.
- (2) The above figures have been drawn up in accordance with the Group's normal accounting policies.
- (3) Earnings per share are calculated on a weighted average of 5,077,981 shares in issue during the half-year to 31st December, 1989 (1988 : 3,924,127).
- (4) An interim dividend of 4.0p net per Ordinary share will be paid on 26th April, 1990 to all shareholders on the register on 5th April, 1990 (1988 : 3.5p).

PART IV

General information

1. Responsibility

This document includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to the Company. The Directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether of fact or opinion. All the Directors accept responsibility accordingly.

2. Directors

The Directors of the Company and their responsibilities are as follows:

✓ T. R. Shand	Executive Chairman
✓ J. R. Beecher	Commercial Director
✓ C. V. Dane, M.A.(Cantab.), A.C.A.	Finance Director
✓ C. C. Norland, F.C.A.	Non-Executive Director

3. Incorporation and share capital

- (a) The Company was incorporated on 25th July, 1967 as a private company with limited liability under the Companies Act, 1948 and re-registered as a public limited company on 22nd November, 1985. The Company trades, and is the holding company for a group which operates, in the entertainment industry worldwide, acquiring music video and film rights and marketing these by the release of its own label records, cassettes, compact discs and video-cassettes and by the sub-licensing, direct sale or other exploitation of the rights.
- (b) In relation to the Company, during the two years immediately preceding the publication of this document, the following alterations in capital and issues of shares have been made:
 - (i) On 6th April, 1988 22,006 Ordinary shares were allotted, credited as fully paid, upon conversion of part of the Convertible Loan Notes 1990 ("Loan Notes") issued in consideration for the sale to the Company of 94.3 per cent. of the issued share capital of Hendring Limited.
 - (ii) On 1st July, 1988 113,397 Ordinary shares were allotted, credited as fully paid, as initial consideration for the sale to the Company of the entire issued share capital of Castle Target International Limited (formerly Target International Pictures Limited) ("Target").
 - (iii) On 8th July, 1988 90,717 Ordinary shares were allotted, credited as fully paid, as consideration for the sale to the Company of the entire issued share capital of Masterpiece Music Productions Limited ("Masterpiece").
 - (iv) On 12th October, 1988 40,322 Ordinary shares were allotted, credited as fully paid, as consideration for the sale to the Company of the entire issued share capital of Castle Sales and Marketing Limited (formerly Telesales Services Limited).
 - (v) On 6th December, 1988 there was a placing and offer to shareholders of 385,962 Ordinary shares at £2.70 per share and 600,000 Redeemable Preference shares at £1 per share. Details of the agreements relating to this placing are set out in paragraphs 8(d) and (e) below.
 - (vi) By resolutions passed at an Extraordinary General Meeting of the Company held on 3rd January, 1989 the authorised share capital of the Company was increased from £215,909.05 to £840,909.05 by the creation of an additional 500,000 Ordinary shares and the creation of 600,000 Redeemable Preference shares of £1 each.

- (vii) On 10th February, 1989 a further 91,256 Ordinary shares were allotted, credited as fully paid, upon conversion of further Loan Notes issued in consideration for the sale to the Company of 94.3 per cent. of the issued share capital of Hendring Limited.
 - (viii) On 25th May, 1989 642,858 Ordinary shares were issued in connection with the acquisition of rights in master recordings from Precision Records and Tapes Limited ("PRT") and Legacy Records Limited ("Legacy") (referred to below) at a price of £3.50 per share.
 - (ix) By ordinary resolution passed on 15th June, 1989:
 - (1) the authorised share capital of the Company was increased from £840,909.05 to £937,500 by the creation of an additional 1,931,819 Ordinary shares; and
 - (2) the Directors were authorised pursuant to section 80 of the Companies Act 1985 to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £120,657.95, such authority expiring 14th June, 1994.
 - (x) On 15th November, 1989 a further 17,321 Ordinary shares were issued, credited as fully paid, as additional consideration for the sale to the Company of the entire issued share capital of Target.
 - (xi) On 15th November, 1989 86,120 Ordinary shares were issued upon the exercise of options under the Share Option Scheme at 70.4p per share.
 - (xii) On 12th February, 1990 a further 14,715 Ordinary shares were issued, credited as fully paid, on conversion of the remaining Loan Notes issued in consideration for the sale to the Company of 94.3 per cent. of the issued share capital of Hendring Limited. Of these shares, certificates representing 1,458 Ordinary shares are held by the Company against delivery to the Company of the certificates in respect of £1,767.50 nominal of Loan Notes for cancellation.
- (c) The following table sets out the authorised and issued share capital of the Company as it is at present and as it will be following the Rights Issue:

	<i>Authorised</i>		<i>Issued and fully paid</i>	
<i>Ordinary shares of 5p each:</i>	<i>£</i>	<i>Number</i>	<i>£</i>	<i>Number</i>
At present	337,500	6,750,000	254,892.75	5,097,855
To be issued in connection with the Rights Issue	—	—	56,642.80	1,132,856
	<u>337,500</u>	<u>6,750,000</u>	<u>311,535.55</u>	<u>6,230,711</u>
<i>Redeemable Preference shares of £1 each:</i>	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>

- (d) An option has been granted over shares representing up to 10 per cent. of the issued share capital of Castle Communications (Australasia) Limited to Catskills Investments Pty. Limited ("Catskills"). The number of shares over which the option may be exercised is dependent upon the profits of this subsidiary. Catskills provides the services of John Evans, the managing director of Castle Communications (Australasia) Limited.
- (e) Save as disclosed in this document:
 - (i) no share or loan capital of the Company or of any of its subsidiaries has within the two years immediately preceding the publication of this document been issued or agreed to be issued or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted within the two years immediately preceding the publication of this document in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and
 - (iii) no share or loan capital of the Company or of any of its subsidiaries is under option or has been agreed conditionally or unconditionally to be put under option.

- (f) Following the Rights Issue 519,289 Ordinary shares will remain unissued representing 7.7 per cent. of the authorised ordinary share capital.
- (g) No material issue of shares will be made (other than to shareholders *pro rata* to their existing shareholdings) within one year of the date of this document; nor will any issue of shares be made which would effectively alter the control of the Company or the nature of its business, without the prior approval of shareholders in general meeting.
- (h) By resolutions passed at the Annual General Meeting of the Company held on 4th December, 1989 the Directors were empowered, pursuant to section 95 of the Companies Act 1985, to allot equity securities pursuant to the authority described in paragraph (b)(ix) above as if section 89(1) of that Act did not apply, such power to expire on the earlier of the date of the Annual General Meeting in 1990 and 3rd March, 1991 and to be limited to rights issues in favour of Ordinary shareholders and, in addition, to allot equity securities for cash up to an aggregate nominal amount of £12,449.
- (i) Other than as set out in paragraph 3(b)(xii) above, there are no outstanding convertible debt securities.

4. Directors' and other interests in the Company

- (a) At the date of this document the interests of the Directors and their families in the issued Ordinary share capital of the Company, all of which are beneficial, as shown in the register required to be kept under section 325 of the Companies Act 1985, are:

	Number of Ordinary shares	Percentage of currently issued Ordinary share capital	Number of options
T. R. Shand	760,000	14.9	50,000
J. R. Beecher	12,500	0.2	96,440
C. V. Dane	59,758	1.2	64,000
C. C. Norland	—	—	—

- (b) In addition to the interests of T. R. Shand, the Company has been informed of the following holdings of more than five per cent. of the Company's issued Ordinary share capital:

	Number of Ordinary shares	Percentage of currently issued Ordinary share capital
Clients of Gartmore Investment Management Limited	877,397	17.2
Clients of N. M. Rothschild Asset Management Limited	375,000	7.4
Funds under management of Prudential Portfolio Managers Limited	261,175	5.1

Save as aforesaid, the Company is not aware of any person who is interested, whether directly or indirectly, in five per cent. or more of the present issued share capital of the Company and no persons, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

- (c) The following is a summary of the main terms of the Directors' service agreements with the Company:

Name	Term	Current annual remuneration subject to annual review
T. R. Shand	*3 years from 1st November, 1989	£110,000
J. R. Beecher	*3 years from 1st November, 1989	£75,000
C. V. Dane	*3 years from 1st November, 1989	£60,000

*Thereafter, terminable on six months' notice by either party.

Save as disclosed in this document, there are no existing or proposed service or consultancy agreements between any of the Directors and the Company or its subsidiaries.

- (d) The aggregate of the remuneration paid and benefits in kind (including contributions to pension schemes) provided to the Directors by all members of the Group during the year ended 30th June, 1989 was £186,000. C. C. Norland received no remuneration as a Director. However, during the year, a company of which he was a director received a fee of £7,500 in respect of his services, which is not included in this total. It is estimated that the aggregate of emoluments to be provided to the Directors, other than the fee in respect of the services of C. C. Norland, in the current financial year under the arrangements in force at the date of this document will be £279,000. The total emoluments receivable by the Directors will not be varied as a consequence of the Rights Issue.
- (e) There are no outstanding loans or guarantees provided by any member of the Group for the benefit of any Director.
- (f) No Director has any interest in any assets which have been within the two years immediately preceding the publication of this document, acquired or disposed of by, or leased to, the Company or any of its subsidiaries, or are proposed to be acquired, disposed of by, or leased to, the Company or any of its subsidiaries.
- (g) No Director has any direct or indirect interest in any contract or arrangement which is significant in relation to the business of the Group taken as a whole.

5. Articles of Association

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

(a) Ordinary shares

(i) Dividends

Subject to the rights of holders of the Redeemable Preference shares and of any other shares having preferential or other special rights, the holders of the Ordinary shares are entitled to the profits of the Company available for dividend and resolved to be distributed. A member is not entitled to receive any dividend until all calls for the time being due and payable have been paid, together with interest and expenses in respect of such calls.

(ii) Unclaimed dividends

Any dividend unclaimed after a period of 12 years from the date of declaration shall be forfeited and revert to the Company.

(iii) Return of capital

Subject to the rights of holders of the Redeemable Preference shares and of any other shares having priority on a winding up or liquidation, the assets of the Company available for distribution will be divided amongst the holders of the Ordinary shares.

(iv) Voting

On a show of hands every member who being an individual, is present in person, or being a corporation is present by a duly authorised representative, and in each case is entitled to vote, shall have one vote and on a poll every member who is present in person or by proxy and entitled to vote shall have one vote for every Ordinary share held by him or her. A member shall not be entitled to vote if any call or other sum presently payable by him or her to the Company in respect of shares in the Company remains unpaid or if he or she or any person appearing to be interested in shares held by him or her has been duly served with a notice under section 212 of the Companies Act 1985 and has failed to supply to the Company the information thereby required within 28 days (or such longer period as may be specified in such notice) from the service of such notice.

(v) *Alterations of capital*

Subject to any Act for the time being in force affecting the Company, the Company may by ordinary resolution:

- (a) increase its capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution directs;
- (b) consolidate all or any of its share capital into shares of larger amounts than its existing shares;
- (c) cancel any shares which at the date of passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (d) sub-divide its shares or any of them into shares of a smaller amount than is fixed by the Memorandum of Association.

Subject to any Act for the time being in force affecting the Company, the Company may by special resolution reduce its share capital.

(vi) *Variation of rights*

The special rights attached to any class of shares may only be modified, varied or abrogated either with the written consent of the holders of three-fourths in nominal value of the issued shares of the relevant class or with the sanction of an extraordinary resolution passed at a separate meeting of the members of that class, and then only subject to the provisions of section 127 of the Companies Act 1985. To any such separate meeting, the provisions of the Articles relating to general meetings *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two members of the class holding or representing by proxy at least one-third of the capital paid-up on the issued shares of the class. The rights conferred upon holders of shares of any class issued with preferred or other rights shall not, unless provided by the Articles of Association or terms of issue of such shares, be deemed to be modified, varied or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

(b) *Redeemable Preference shares*

(i) *Dividends*

The Redeemable Preference shares carry the right to be paid a fixed cumulative preferential dividend in priority to any dividend on the Ordinary shares, at the rate of 11.25 per cent. per annum (exclusive of any imputed tax credit available to shareholders) on the amount for the time being credited as paid up thereon, payable half-yearly in equal instalments, and in arrears, on 6th April and 1st October in each year. The Redeemable Preference shares have no further right to participate in the profits of the Company.

(ii) *Return of capital*

The holders of Redeemable Preference shares have the preferential right on any return of assets on a winding up of the Company to payment of, in respect of each Redeemable Preference share, a sum equal to the aggregate of the amount paid or credited as paid up plus any arrears or deficiency of dividend plus an amount by way of premium as set out in the special resolution creating the Redeemable Preference shares. The Redeemable Preference shares do not carry the right to any further or other right to participate in the assets of the Company.

(iii) *Voting*

The Redeemable Preference shares do not confer the right to receive notice of or to attend or to vote at general meetings unless at the date of the notice convening such meeting the fixed cumulative preferential dividend is six months overdue or a resolution is to be proposed for the winding up of the Company.

Whenever Redeemable Preference shareholders are entitled to vote, on a show of hands every holder who being an individual is present in person, or being a corporation is

present by a representative or proxy, shall have one vote and on a poll every holder present in person or by proxy shall have one vote in respect of each fully paid Redeemable Preference share registered in the name of such holder.

(iv) *Redemption*

The Redeemable Preference shares may be redeemed as a whole at the Company's option at any time up to 31st December, 1993 by at least one month's written notice. On redemption the Company shall pay, in respect of each share, a sum equal to the aggregate of the amount paid or credited as paid, plus any arrears or deficiency of dividend plus an amount by way of premium as set out in the special resolution creating the Redeemable Preference shares.

The Company is required to redeem at par all the outstanding Redeemable Preference shares on 31st December, 1993 (and pay any dividend arrears).

(v) *Further issues*

The consent or sanction of the holders of the Redeemable Preference shares as a class is required to the creation or issue of any further shares ranking as regards participation in profits or assets of the Company in priority to the Redeemable Preference shares, and to the creation or issue of any further shares ranking *pari passu* with the Redeemable Preference shares provided that in respect of any creation or issue ranking as to dividend and capital *pari passu* (or *pari passu* except as to the date from which such shares shall rank for dividend) consent or sanction is not required if immediately following such issue the aggregate amount (including any premium) paid up or credited as paid up on all the issued Redeemable Preference shares (including such further redeemable preference shares) does not exceed 25 per cent. of the Adjusted Capital and Reserves (as defined in the Articles of Association).

(vi) *Variation of Rights*

The rights and privileges attached to the Redeemable Preference shares may be varied or abrogated with the consent in writing of the holders of three-quarters in nominal value of the Redeemable Preference shares then in issue or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of Redeemable Preference shares.

(c) *Borrowing powers*

The aggregate principal amount at any one time owing by the Company and all of its subsidiaries in respect of monies borrowed by it or any of them (exclusive of monies borrowed by the Company or any of its subsidiaries from any other such companies) shall not at any time, without the previous sanction of the Ordinary and Redeemable Preference shareholders, exceed a sum equal to three times the aggregate of the nominal capital of the Company for the time being issued and paid up and the amounts standing to the credit of the consolidated capital and revenue reserves (including share premium account, capital redemption reserve and profit and loss account) of the Company and any subsidiary companies all as shown in a consolidation of the then latest audited balance sheets of the Company and each of its subsidiaries after adjustment for goodwill arising on consolidation and other matters as specified in the relevant Article.

6. Share Option Scheme

The following options over Ordinary shares have been granted to Directors and employees under the terms of the Share Option Scheme and are exercisable between three and ten years after the relevant allocation date:

<i>Allocation date</i>	<i>Exercise price</i>	<i>T.R.Shand</i>	<i>J.R.Beecher</i>	<i>C.V.Dane</i>	<i>Employees</i>
21st January, 1986	70.4p	—	10,440	—	—
24th March, 1987	200p	—	40,000	35,000	7,000
2nd November, 1987	223p	—	4,000	4,000	7,000
6th May, 1988	217p	—	12,000	5,000	21,000
21st November, 1988	270p	—	5,000	5,000	28,000
9th May, 1989	347p	—	5,000	5,000	10,000
30th November, 1989	433p	50,000	20,000	10,000	56,000

The total number of shares over which options under the scheme have been granted including those of Directors is 339,440. Under the rules of the Share Option Scheme each option was granted for a consideration of £1.

7. Subsidiaries

The following are subsidiaries of the Company, all of which are private companies limited by shares:

<i>Name</i>	<i>Nature of business</i>	<i>Country of incorporation</i>	<i>Percentage held</i>
Castle Finland Oy Limited	Scandinavian record labels	Finland	97.5%
Castle Video Oy Limited	Finnish sell-through and rental video labels	Finland	99.8%
Hendring Limited	UK and European sell-through video label	England	95.1%
Castle Home Video Limited	UK rental and sell-through video labels	England	100%
Knight Records Limited	UK record labels	England	100%
Castle Premier Releasing Limited	UK theatrical (cinema) distributor	England	100%
Masterpiece Music Productions Limited	UK record labels	England	100%
Castle Sales & Marketing Limited	UK record and video sales	England	100%
Castle Target International Limited	International film, television and video rights sales	England	100%
Castle Communications (Australasia) Limited	Record and sell-through video labels in Australasia	Australia	80%
Castle Communications (Deutschland) GmbH	European record and sell-through video labels	W. Germany	51%
Castle Communications AG		Switzerland	51%
Eastern Light Productions Limited	Non-trading	England	100%

8. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company within the two years immediately preceding the date hereof and are, or may be, material:

- (a) An agreement dated 23rd June, 1988 between (1) N. N. Agran and B. J. S. Parsons-Smith and (2) the Company, pursuant to which the Company acquired the entire issued share capital of Target, a company which specialises in the distribution of films both for theatrical (cinema) and video release. The consideration for the acquisition was £343,750, satisfied by the issue of 130,718 Ordinary shares.
- (b) An agreement dated 8th July, 1988 between (1) A. F. Harding and S. P. Harding ("the Vendors") and (2) the Company pursuant to which the Company acquired the entire issued share capital of Masterpiece, a company which specialises in the licensing of music rights and the sale of its own label records, cassettes and compact discs. The initial consideration payable for the acquisition was £215,000, satisfied by the issue of 90,717 Ordinary shares. As a result of Masterpiece failing to achieve the pre-tax profits warranted by the Vendors in the period from 1st April, 1988 to 30th June, 1989, the final consideration was reduced by £76,000.

- (c) An agreement dated 11th October, 1988 between (1) G. Jenks, J. G. Howe and J. E. Howes and (2) the Company pursuant to which the Company acquired the entire issued share capital of Castle Sales and Marketing Limited, a company which specialises in the provision of sales and marketing services in the music and video industries. The consideration payable for the acquisition was £100,000, satisfied by the issue of 40,322 Ordinary shares.
- (d) An agreement dated 5th December, 1988 between (1) the Company, (2) the Directors and (3) Industrial Finance and Investment Corporation PLC ("IFICO") pursuant to which IFICO agreed as agent for the Company to make the Offer (as defined in the circular to shareholders dated 6th December, 1988) and to procure subscribers for all the Preference shares (as defined in the agreement) for a fee of £10,000.
- (e) An agreement dated 5th December, 1988 between (1) the Company and (2) Mathesons pursuant to which Mathesons agreed to subscribe or procure subscribers for certain shares (as defined in the agreement) pursuant to the Offer (as defined in the agreement) at the price of 270p per share. Mathesons was entitled to deduct from subscription monies a fee equal to 1½ per cent. of the subscription monies subscribed by Mathesons itself in accordance with the terms of the agreement, and a fee payable to Schroders of a sum equal to 1½ per cent. of the subscription monies procured from Schroders.
- (f) An agreement dated 25th May, 1989 between (1) the Company, (2) PRT and Legacy, (3) Schroders and (4) Mathesons whereby PRT, Legacy and the Company agreed that £2,250,000 of the consideration payable pursuant to the agreements referred to in paragraphs (g) and (h) below would be satisfied by the allotment and issue to PRT and Legacy of 642,858 Ordinary shares to be placed on their behalf or purchased by Schroders and Mathesons at a price of 350p per Ordinary share. The Company agreed to pay Schroders a fee of £46,875 and to pay Mathesons a fee of £16,875.
- (g) An agreement dated 16th June, 1989 between (1) PRT and (2) the Company pursuant to which the Company acquired rights in certain master recordings for a consideration of £2,700,000, of which £2,025,000 was paid at completion. The balance of £675,000 is payable on 16th June, 1991. Interest is payable on the outstanding consideration.
- (h) An agreement dated 16th June, 1989 between (1) Legacy and (2) the Company pursuant to which the Company acquired rights in certain master recordings for a consideration of £300,000, of which £225,000 was paid at completion. The balance of £75,000 is payable on 16th June, 1991. Interest is payable on the outstanding consideration.
- (i) An agreement dated 8th September, 1989 between (1) the Company and (2) Phonomatic Holding AG pursuant to which the parties agreed to set up companies in Switzerland, Germany and the Netherlands, and to distribute records and video tapes in certain European countries. Castle agreed to subscribe Swiss Fr. 204,000, DM 25,500 and Hfl. 25,500 respectively for share capital in these companies.
- (j) An agreement dated 13th December, 1989 between (1) the Company and (2) Phonomatic Holding AG pursuant to which the parties agreed to set up Videocopy GmbH ("Videocopy") and the Company agreed to subscribe DM 588,000 for shares in Videocopy and provide a loan of DM 312,000 to Videocopy.
- (k) An underwriting agreement dated 22nd March, 1990 between (1) the Company, (2) Schroders and (3) Mathesons whereby Schroders and Mathesons (together "the Underwriters") have agreed jointly and severally to underwrite the issue of the new Ordinary shares for a commission of 2¼ per cent. of the aggregate subscription price out of which they will pay sub-underwriting commission of 1¼ per cent. In addition Schroders will receive a fee for its services in relation to the Rights Issue. The agreement is conditional, *inter alia*, upon permission being granted for dealings in the new Ordinary shares in the Unlisted Securities Market. The underwriting agreement contains certain warranties and an indemnity given by the Company to the Underwriters. Breach of such warranties may entitle the Underwriters to terminate their obligations under this agreement.

9. Litigation

There are no legal or arbitration proceedings pending or threatened against any member of the Castle Communications Group which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Castle Communications Group's financial position.

10. Working capital

Taking into account existing bank and other facilities and the net proceeds of the Rights Issue, the Directors are of the opinion that the working capital available to the Group following the Rights Issue will be sufficient for its present requirements.

11. Indebtedness statement

(a) At the close of business on 9th March, 1990 the Group had outstanding:

	£'000
Bank loans repayable in less than one year and overdrafts (secured)	3,858
Bank loans repayable in one to five years (secured)	1,575
Bank loans repayable in more than five years (secured)	1,048
Capital obligations under finance leases and hire purchase loans	486
Loan Notes	2
	<hr/>
	6,969
	<hr/>

In addition, at that date the Group had cash and deposits of £208,000.

(b) Save as disclosed in this document and apart from intra-Group indebtedness, neither the Company nor any of its subsidiaries has any loan capital (including term loans) outstanding or created but unissued, or any outstanding mortgages, charges, debentures or other indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire-purchase commitments, guarantees or other material contingent liabilities.

12. Miscellaneous

- ✓ (i) Schroders has given and not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it appears.
- (ii) The expenses of the Rights Issue (including commissions as set out in paragraph 8(k) above and the Unlisted Securities Market charge) are estimated to amount to approximately £216,000 (excluding VAT) and are payable by the Company.
- (iii) The financial information contained in this document does not constitute full accounts within the meaning of section 254 of the Companies Act 1985.

13. Documents for inspection

Copies of the following documents may be inspected at the offices of Cameron Markby Hewitt, Sceptre Court, 40 Tower Hill, London EC3N 4BB, during usual business hours on weekdays (except Saturdays and public holidays) up to and including 17th April, 1990:

- (i) the Memorandum and Articles of Association of the Company;
- (ii) the audited consolidated accounts of the Group for the two years ended 30th June, 1989 and the unaudited interim results for the six months ended 31st December, 1989;
- (iii) the Directors' service agreements;
- (iv) the material contracts referred to in paragraph 8 above;
- (v) the rules of the Share Option Scheme; and
- (vi) the letter of consent referred to in paragraph 12(i) above.

DEFINITIONS

In this document and the enclosed Provisional Allotment Letter the following words and expressions shall, unless the context requires otherwise, have the following meanings:

"Castle Communications" or "Company"	Castle Communications PLC
"Castle Communications Group" or "Group"	Castle Communications and its subsidiaries
"Directors"	the Directors of Castle Communications
"Schroders"	Schroder Securities Limited
"Mathesons"	Matheson Securities Limited
"Rights Issue"	the issue by way of rights of the new Ordinary shares, as described and on the terms set out in this document
"issue price"	400p per new Ordinary share
"Ordinary shares"	Ordinary shares of 5p each in Castle Communications, issued and fully paid
"new Ordinary shares"	new Ordinary shares of 5p each to be allotted to Qualifying Shareholders, credited as fully paid, pursuant to the Rights Issue
"Redeemable Preference shares"	11.25 per cent. Cumulative Redeemable Preference shares of £1 each, issued and fully paid, created by special resolution dated 3rd January, 1989
"Qualifying Shareholders"	holders of Ordinary shares on the register of members at the close of business on 15th March, 1990 other than North American persons
"Share Option Scheme"	Castle Communications Share Option Scheme
"UK" and "US"/"United States"	the United Kingdom and the United States of America respectively
"North American person"	a citizen or resident of the United States or Canada, including any corporate, partnership or other entity created or organised under the laws of the United States or Canada or any constitutional subdivision thereof and any estate of any such person and any estate or trust which is subject to US federal income taxation regardless of its source
"The Stock Exchange"	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited



Schroders

Schroder Securities Limited

120 Cheapside, London EC2V 6DS

The Directors,
Castle Communications PLC
15 Northfields Prospect,
Putney Bridge Road,
London SW18 1PE.

22nd March, 1990.

Dear Sirs,

We hereby consent to the issue of the document to be dated 23rd March, 1990 addressed to the shareholders of Castle Communications PLC with the inclusion of our name in the forms and contexts in which it appears.

Yours faithfully,
for SCHRODER SECURITIES LIMITED

N.I. Hamilton

N.I. Hamilton
Director

