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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. When considering what action you should take, you are recommended to seek your own personal financial advice from your stockbroker, solicitor, accountant or other independent professional adviser authorised under the Financial Services Act 1986.

If you have sold or transferred all of your Ordinary Shares in Ronson plc prior to close of business on 14 August 1998 please immediately forward this document, together with the Form of Proxy and Application Form, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold or transferred part of your Ordinary Shares in Ronson plc prior to the close of business on 14 August 1998, you should immediately consult your stockbroker, bank or other agent through whom the sale or transfer was effected. However, such documents should not be forwarded or transmitted in or into the United States, Canada or Australia.

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

A copy of this document, which comprises a prospectus relating to Ronson plc prepared in accordance with the Listing Rules made pursuant to section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of that Act. ✓

Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List. It is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence on 21 September 1998. The Ordinary Shares are listed on the Official List.

Charles Stanley & Company Limited, which is regulated by The Securities and Futures Authority Limited, is acting exclusively for Ronson plc in connection with the Proposals and no one else and will not be responsible to anyone other than Ronson plc for providing the protections afforded to customers of Charles Stanley & Company Limited nor for advising them in relation to the Proposals or the contents of this document.



Ronson plc ✓

Proposed Placing and Open Offer **of 850,283,862 New Ordinary Shares at 1p per share,** **issue of Warrants and subscription of 125,317,342 Convertible Shares** **Approval of a new executive share option scheme** **Ratification and approval of Related Party Transactions** **Capital Reorganisation**

The Open Offer expires at 3 p.m. on 17 September 1998. The procedure for application is set out in Part II of this document. Application Forms for those Qualifying Shareholders wishing to accept the Open Offer should be completed and returned with the appropriate remittance to Connaught St Michaels Limited, PO Box 30, CSM House, Victoria Street, Luton, Bedfordshire LU1 2PZ so as to arrive no later than 3 p.m. on 17 September 1998.

Notice of an Extraordinary General Meeting of Ronson plc to be held immediately after the conclusion of the Annual General Meeting of Ronson plc convened for 18 September 1998 at 25 Luke Street, London EC2A 4AR is set out at the end of this document. A Form of Proxy for use at the Extraordinary General Meeting is enclosed and should be completed and returned to Connaught St Michaels Limited, PO Box 30, CSM House, Victoria Street, Luton, Bedfordshire LU1 2PZ not later than 48 hours prior to the time appointed for the EGM.

The action to be taken by Shareholders is set out on page 14 of this document.

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TIMETABLE OF PRINCIPAL EVENTS

| | 1998 |
|---|--------------------------------|
| Record date for the Open Offer | Close of business on 14 August |
| Latest time and date for splitting of Application Forms | 15 September |
| Latest time and date for receipt of completed Application Forms and payment in full | 3 p.m. on 17 September |
| Latest date and time for receipt of Forms of Proxy | 2.10 p.m. on 16 September |
| Extraordinary General Meeting | 2.10 p.m. on 18 September |
| Dealing in New Ordinary Shares commences | 9 a.m. on 21 September |
| Date for despatch of definitive share certificates for the New Ordinary Shares | by no later than 28 September |

DEFINITIONS

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

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| "Act" | the Companies Act 1985 (as amended) |
| "Admission" | admission of the New Ordinary Shares to the Official List |
| "AGM" | the Annual General Meeting of the Company to be held at 2 p.m. on 18 September 1998 |
| "Albion" | Albion Consortium Fund Limited, a company in which Farzad Rastegar is interested, details of which are set out in Part VI of this document |
| "Albion Guarantee" | the guarantee dated 6 March 1998 by Albion to the Bank of the obligations and liabilities of the Group to the Bank, details of which are set out at paragraph 14 of Part X of this document |
| "Application Form" | the application form in respect of the Open Offer which accompanies this document |
| "Bank" | National Westminster Bank plc |
| "Berkeley Capital Advisors" | Berkeley Capital Advisors Limited |
| "Board" or "Directors" | the directors of Ronson |
| "Capital Reorganisation" | the capital reorganisation of the Company which will result in the creation of 89,596,203 New Ordinary Shares and 89,596,203 Deferred Shares from the sub-division and reclassification of the existing Ordinary Shares, details of which are set out in Part I of this document |
| "Charles Stanley" | Charles Stanley & Company Limited, a member of the London Stock Exchange and regulated by The Securities and Futures Authority |
| "City Code" | The City Code on Takeovers and Mergers |
| "Company" or "Ronson" | Ronson plc |
| "Committed Shares" | 83,292,685 of the Open Offer Shares for which Albion and Stancroft have irrevocably undertaken to take up their respective entitlements under the Open Offer |
| "Concert Party" | each of Albion, Stancroft and Victor Kiam and "Concert Parties" shall be construed accordingly |
| "Connaught St Michaels" | Connaught St Michaels Limited, the registrars of the Company |
| "Convertible Shares" | the convertible shares of 0.01p each in the capital of the Company, details of which are set out in Part VIII of this document |
| "CREST" | the relevant system (as defined in the Uncertificated Securities Regulations 1995) in respect of which CRESTCo is the Operator (as defined in such Regulations) |
| "CRESTCo" | CRESTCo Limited |
| "Deferred Shares" | the deferred shares of 4.99p each to be created pursuant to the Capital Reorganisation |
| "Enlarged Issued Share Capital" | the issued ordinary share capital of the Company immediately following the Placing and Open Offer assuming full conversion of the Convertible Shares into New Ordinary Shares but excluding New Ordinary Shares arising upon the exercise of Warrants and the exercise of options granted under the 1998 Share Option Scheme |
| "Extraordinary General Meeting" or "EGM" | the Extraordinary General Meeting of the Company notice of which is set out at the end of this document to be held immediately after the AGM |
| "Firm Placing" | the firm placing by Charles Stanley of the Firm Placing Shares in accordance with the Placing and Open Offer Agreement |
| "Firm Placing Shares" | the 469,500,000 New Ordinary Shares which are not being offered to Qualifying Shareholders pursuant to the Open Offer and which are to be placed firm by Charles Stanley pursuant to the Firm Placing |
| "Form of Proxy" | the enclosed form of proxy for use in connection with the EGM |
| "Group" | the Company and its subsidiaries |

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| "Issue Price" | 1 pence per New Ordinary Share |
| "Kiam Guarantee" | the guarantee dated 24 June 1998 by Victor Kiam to The Provident Bank details of which are set out at paragraph 14 of Part X of this document |
| "Listing Rules" | the Listing Rules of the London Stock Exchange |
| "London Stock Exchange" | London Stock Exchange Limited |
| "Maximum Enlarged Issued Share Capital" | being the issued ordinary share capital of the Company immediately following the Placing and Open Offer assuming full conversion of the Convertible Shares into New Ordinary Shares, full exercise of the Warrants and full exercise of all options which may be granted under the 1998 Share Option Scheme |
| "New Ordinary Shares" | new ordinary shares of 0.01p each proposed to be created or issued pursuant to the Proposals |
| "Official List" | the Official List of the London Stock Exchange |
| "Open Offer" | the conditional offer by Charles Stanley as agent for and on behalf of the Company to Qualifying Shareholders to subscribe for the Open Offer Shares, on the terms and subject to the conditions set out in this document and the Application Form |
| "Open Offer Shares" | the 380,783,862 New Ordinary Shares which are the subject of the Open Offer |
| "Option Schemes" | the 1994 Share Option Scheme and the 1998 Share Option Scheme |
| "Options" | options granted pursuant to the Option Schemes |
| "Ordinary Shares" | the existing ordinary shares of 5p each in the share capital of the Company |
| "Panel" | the Panel on Takeovers and Mergers |
| "Placing" | the Firm Placing and the conditional placing by Charles Stanley of the Placing Shares at the Issue Price |
| "Placing Shares" | the Open Offer Shares less the Committed Shares |
| "Placing and Open Offer Agreement" | the agreement relating to the Placing and the Open Offer between the Company and Charles Stanley, details of which are set out in paragraph 14 of Part X of this document |
| "Proposals" | the proposals set out in this document, being the Capital Reorganisation, the Placing and Open Offer, the Subscription and the issue of the Warrants |
| "Qualifying Shareholders" | holders of Ordinary Shares on the register of members of the Company on the Record Date to whom the Open Offer is made (save as otherwise provided in Part II in relation to certain overseas shareholders) |
| "Record Date" | the close of business on 14 August 1998 |
| "Related Party Transactions" | the entering into of the Albion Guarantee effective on 6 March 1998 and the subsequent extensions of that guarantee effective on 30 June 1998 and 20 August 1998 and the entering into of the Kiam Guarantee effective on 26 June 1998 and the subsequent extension effective on 20 August 1998 |
| "Relationship Agreement" | the conditional agreement dated 25 August 1998, between (1) the Company, (2) Albion and (3) Farzad Rastegar governing the future relationship between them, further details of which are set out in paragraph 14 of Part X |
| "Resolutions" | the resolutions set out in the notice of EGM at the end of this document |
| "Ronson 1998 Warrants" | the warrants to subscribe for 23,497,001 New Ordinary Shares in cash at any time from 18 September 1998 until 18 September 2003 at the Issue Price (subject to adjustment in accordance with the terms set out in Part VII of this document) |
| "Ronson 1999 Warrants" | the warrants to subscribe for 23,497,001 New Ordinary Shares in cash at any time from 1 July 1999 until 30 April 2003 at the Issue Price (subject to adjustment in accordance with the terms set out in Part VII of this document), subject to the satisfaction of the conditions set out in paragraph (b)(i) of Part VII of this document |

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| “Ronson 2000 Warrants” | the warrants to subscribe for 18,797,602 New Ordinary Shares in cash at any time from 1 July 2000 until 30 April 2003 at the Issue Price (subject to adjustment in accordance with the terms set out in Part VII of this document), subject to the satisfaction of the conditions set out in paragraph (b)(ii) of Part VII of this document |
| “Ronson 2001 Warrants” | the warrants to subscribe for 14,098,201 New Ordinary Shares in cash at any time from 1 July 2001 until 30 April 2003 at the Issue Price (subject to adjustment in accordance with the terms set out in Part VII of this document), subject to the satisfaction of the conditions set out in paragraph (b)(iii) of Part VII of this document |
| “Ronson 2002 Warrants” | the warrants to subscribe for 14,098,201 New Ordinary Shares in cash at any time from 1 July 2002 until 30 April 2003 at the Issue Price (subject to adjustment in accordance with the terms set out in Part VII of this document), subject to the satisfaction of the conditions set out in paragraph (b)(iv) of Part VII of this document |
| “Shareholders” | holders of Ordinary Shares |
| “1994 Share Option Scheme” | the executive share option scheme adopted by the Company in general meeting on 12 January 1994 |
| “1998 Share Option Scheme” | the share option scheme proposed to be adopted by the Company at the EGM, details of which are set out in Part IX of this document |
| “Stancroft” | Stancroft Trust Limited including its principal shareholder N W Berry and trusts associated with him |
| “Subscription” | the subscription by Albion and Stancroft for, in aggregate, 125,317,342 Convertible Shares |
| “Taxes Act” | the Income and Corporation Taxes Act 1988 |
| “United Kingdom” or “UK” | the United Kingdom of Great Britain and Northern Ireland |
| “Victor Kiam” | Victor Kiam, a US citizen and Executive Chairman of Ronson |
| “Warrants” | the Ronson 1998 Warrants, the Ronson 1999 Warrants, the Ronson 2000 Warrants, the Ronson 2001 Warrants and/or (as the context requires) the Ronson 2002 Warrants particulars, of which are set out in Part VII of this document |
| “Whitewash” | has the meaning given to it under the paragraph headed “The City Code” in Part I of this document |

Part I

Letter from the Chairman

Ronson plc

(Incorporated in England and Wales with registered number 1907889) ✓

Directors:

Victor Kiam (*Executive Chairman*)
Farzad Rastegar (*Executive Deputy Chairman*)
Laurie Todd (*Finance Director*)

*Registered Office
and Head Office:*
Ronson House
Broadfield Park
Brighton Road
Crawley
West Sussex
RH11 9RT

26 August 1998 ✓

To all Shareholders

Proposed Placing and Open Offer of 850,283,862 New Ordinary Shares at 1p per share, Subscription, issue of Warrants and other matters

Dear Shareholder

Introduction

You will be aware that the listing of the Company's Ordinary Shares on the London Stock Exchange was suspended on 30 June 1998, pending publication of its report and accounts for the year ended 31 December 1997. The Board was unable to approve the report and accounts until the announcement of the Proposals.

The Board has today announced proposals, *inter alia*, to raise approximately £8.0 million, net of expenses, by means of the Proposals. It was also announced today that the Group made a total operating loss for the year to 31 December 1997 of £11.4 million on turnover of £26.3 million, against an operating loss of £2.2 million on turnover of £31.6 million in the preceding year. The Company's audited annual report and accounts for the year ended 31 December 1997 accompany this document. The London Stock Exchange has therefore indicated that it will lift the suspension following the EGM and the implementation of the Proposals.

The Board has also today announced the unaudited interim results for the Group for the period from 1 January to 4 July 1998, the full text of which is set out in Part IV of this document. The Group made a total operating loss for the period from 1 January to 4 July 1998 of £3.2 million on turnover of £10.4 million. Shareholders should read the whole of this document and not rely on the summarised information in relation to the results for the year ended 31 December 1997 and for the period to 4 July 1998.

The purpose of this letter is to set out the background to and the reasons for the Proposals and to give you further information about the Company. Shareholders should be aware that if the Proposals are not approved by Shareholders at the EGM, or the Proposals are not implemented for any other reason, the Company will be left in a financial position where it would be likely to fail to meet its financial commitments as they fall due for payment. In such circumstances, the Directors believe that, in order to safeguard the interests of creditors and shareholders, there would be no alternative other than to invite the appointment of administrative receivers in the absence of other viable recovery procedures being available at that time, which the Directors consider to be highly unlikely. Consequently, your Directors believe it to be essential for the future of the Company that Shareholders vote in favour of the resolutions to be proposed at the EGM to enable the Proposals to be implemented. Shareholders should also note that approval of the Proposals will lead to a change in control of the Company.

Background to and reasons for the Proposals

The trading performance of the Group in the year ended 31 December 1997 was extremely poor. Turnover at £26.3 million was 17% down on the previous year (1996: £31.6 million) and the operating loss was £11.4 million compared to a loss of £2.2 million in 1996. As a result, in March 1998, the Company announced changes in management including my appointment as Chairman. Proposals for an urgent rescue refinancing were also announced. Since that time a detailed review of the Group's businesses has been carried out and a business plan has been prepared, further details of which are set out below.

The Company's trading in 1997 was severely impacted by poor management processes, lack of management control and the breakdown in computer systems in the first part of 1997. This followed the decision to integrate four businesses into new premises in Crawley and the poorly planned expansion of the product range launched in 1996 which included the introduction of three new brands, namely "Rebel", "Racer" and "Retro". As a result of this, goods were ordered far in excess of the Company's ability to sell. These factors were exacerbated by the management changes in mid 1997. Consequently, exceptional costs were incurred in the year ended 31st December 1997 totalling £7.3 million, of which £3.6 million arose from exceptional stock losses and stock provisions.

The Company's audited accounts for the year ended 31 December 1997 were qualified by the auditors as they were unable to obtain all necessary information and explanations they considered necessary for their audit, in respect of the first six months of the year, and in their opinion proper accounting records had not been maintained for that period.

Trading in the first half of 1998 has continued to be impacted by the uncertainties experienced in the second half of 1997. Turnover in the period 1 January to 4 July 1998 was £10.4 million, 22 per cent. down on the same period in 1997. It has been necessary to make further provisions for excess and slow moving stocks amounting to £0.6 million. Operating expenses at £5.1 million have been reduced by £2.2 million over the same period in the prior year. As a result of the above factors the operating loss for the period was £3.2 million compared to £5.2 million in the same period of the prior year.

The disastrous results of the Company for the 18 months ended 4 July 1998 require that the Company be urgently refinanced. Failing such refinancing, the Directors believe that there would be no alternative other than to invite the appointment of administrative receivers in the absence of other viable recovery procedures, which the Directors consider to be highly unlikely. Shareholders should read the whole of this document and not rely on the summarised information in relation to the results of the year ended 31 December 1997 and for the period to 4 July 1998.

The net proceeds of the Proposals will be utilised to reduce the Group's indebtedness, being £5.3 million as at 31 July 1998, incurred as a result of losses incurred over the last two years and the balance to implement the strategies outlined in the business plan.

Results of the detailed review

Following our review, the Board concluded that the Company has two main components of potential value. One component, and the one which the Directors believe has longer term value, is the Ronson brand. The Ronson brand is most closely associated with lighters. The Directors believe that there is an opportunity to exploit the Ronson brand and build upon it. The other component of potential value is made up by the Group's distribution businesses. These are the Retail, Duty Free and Home Shopping divisions, all of which have well established channels to markets.

Business Plan

The new management team has now established a clear future strategy for the Company based on the results of its detailed review, which seeks to develop opportunities for the Ronson brand, and to rebuild the three divisional revenue streams of the distribution businesses and to make central support functions more efficient.

The Board in preparing the business plan and assessing the working capital requirements of the Group has made a number of critical assumptions which the Board believes should be drawn to the attention of Shareholders, in addition to those detailed below. These critical assumptions are the time frame in which the re-financed and re-structured business can re-establish the potential of the Ronson and other brands, the ability to regenerate turnover with key customers through the Group's historic channels, the ability to achieve divisional sales with adequate margins in the relevant current markets, and finally, the timescale for the introduction of new products.

Ronson brand

The Board considers that two separate stages are required to exploit and build upon the Ronson brand value. Research is required to understand fully certain key markets and to ascertain the Ronson brand's strengths and weaknesses. The existing product range then needs to be improved to strengthen the Ronson brand before extending it further to other product ranges.

Retail division

The Retail division will continue to build upon the core Ronson lighter range in the UK through a direct sales force and overseas through distributors. We shall also seek opportunities to license the Ronson name to third parties for some of the current product range on appropriate terms.

Duty Free division

In the Duty Free division, the focus will be on strengthening the customer relationships with major airlines as well as continuing to develop distribution through ground based duty free operators. The Board anticipates that Pierre Cardin jewellery will remain a major element of the product range. The Board does not believe that the withdrawal of tax and duty free concessions within the EU in June 1999 will have a significant effect on sales for the Duty Free

division. It is expected that the withdrawal will mainly affect tobacco and alcohol sales. The Board recognises, however, that the economic turmoil in the Far Eastern markets combined with a high fixed cost base may impact the division's prospects.

Home Shopping division

In the Home Shopping division, the strengthening of our relationships with the major home shopping companies will continue. The Board believes that opportunities exist to increase turnover through the introduction of new products as well as from the established product ranges.

Operational improvements

The Board believes that the implementation of one system of stock control and accounting across the Company is fundamental to improving the Company's performance. It is intended that the four current systems will be replaced by one by the end of 1998. This will both reduce costs and improve our service to our customers.

We have undertaken a number of initiatives to improve gross margins, both through our purchasing and stock control functions and also through our sales policy. The effects of these initiatives will emerge over the long term but margins have already improved. The Company previously developed a wide range of products, complicated by three sub-brands, "Rebel," "Racer" and "Retro". Rationalisation of these ranges has begun to ensure that the ranges are more focused. This will take time to implement in full but is one of our key tasks.

In 1996 the Company leased new premises and its existing warehouse was expanded on the assumption that the Company would expand profitably as a result of the major range expansion. Opportunities are now being explored to reduce these overheads.

Current Trading and Prospects

As announced today, the Company's trading in the first half of 1998 has continued to be impacted by a structure bringing with it an inappropriate level of overheads which was exacerbated by the management changes and uncertainties in the latter part of 1997. Turnover in the first half is lower than the equivalent period in 1997. Gross margins have improved in the first part of this year as a result of initiatives taken in 1997. However, the high cost base of centralised management and support functions at the Crawley office and central warehouse at Gatwick has continued into the second half. The interim results for the six months to 4 July 1998 are set out in Part IV of this document.

The new business plan anticipates that the divisions will be supported by smaller but more efficient central support functions and therefore it is anticipated that overheads will be reduced.

In addition to the above, the present Board believes that the uncertainties about the Company's future have also adversely affected sales in 1998. The Board believes that the implementation of the Proposals should end this uncertainty and help to provide a secure base for rebuilding the Group in 1999.

Board changes

As Shareholders are aware, there have been a number of changes to the board of your Company over the past year or so. In particular, in addition to the Chairmanship, I have assumed certain executive responsibilities, including that of Chief Marketing Officer. Over the coming months I shall be dedicating a considerable amount of my time to Ronson and to the successful implementation of the business plan outlined above. The Company is currently seeking proposals to put in place "key man" insurance for me.

It is the Board's intention to invite suitable candidates to join the Board as non-executive directors in due course and to seek to appoint a managing director. Albion and Stancroft also each have the right to nominate two directors in certain circumstances, further details of which are set out below under the paragraph headed "Arrangements with Albion and Stancroft".

Details of the Proposals

The Company proposes to raise approximately £8.0 million, net of expenses, by, *inter alia*, the issue of 850,283,862 New Ordinary Shares through the Placing and Open Offer of which approximately £4.7 million is to be raised by way of the Firm Placing and approximately £3.8 million is to be raised by way of the Open Offer. The Company has received irrevocable undertakings from certain Shareholders to take up their respective entitlements under the Open Offer amounting, in aggregate, to approximately £833,000 the balance having been placed with institutional and other investors, as detailed below under the heading "Directors', employees' and other shareholders' intentions in respect of the Placing and Open Offer".

Qualifying Shareholders will be given the opportunity to subscribe for an aggregate of 380,783,862 New Ordinary Shares under the Open Offer at the Issue Price, payable in full on acceptance, on the following basis:-

17 New Ordinary Shares for every 4 existing Ordinary Shares

and so on in proportion for any other number of existing Ordinary Shares held on the Record Date. Qualifying Shareholders may apply for any whole number of New Ordinary Shares up to their maximum entitlement shown in Box 2 on the Application Form.

Qualifying Shareholders wishing to apply for New Ordinary Shares in excess of their maximum entitlement may do so, indicating the total number of New Ordinary Shares applied for in Box 4 on the Application Form. New Ordinary Shares will become available to satisfy such excess applications only to the extent that Qualifying Shareholders have not taken up their full entitlement under the Open Offer. Excess applications may be scaled down or declined in the absolute discretion of the Directors.

New Ordinary Shares issued pursuant to the Placing and Open Offer will, when fully paid, rank *pari passu* in all respects with the New Ordinary Shares created pursuant to the Capital Reorganisation. The Placing and Open Offer is conditional upon the Placing and Open Offer Agreement having become unconditional on or before 21 September 1998 (or such later date as Charles Stanley and the Company may agree being not later than 5 October 1998) and not having been terminated in accordance with its terms. The Placing and Open Offer Agreement, details of which are set out in paragraph 14 of Part X of this document is conditional, *inter alia*, on:

- (a) the passing of the Resolutions at the EGM or any adjournment thereof;
- (b) there having been no material breach of any warranty given by the Company and the Directors prior to Admission; and
- (c) Admission becoming effective by 9 a.m. on 21 September 1998 (or such later date as Charles Stanley may agree with the Company).

Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List. It is expected that Admission will become effective and that dealings will commence in the New Ordinary Shares on 21 September 1998.

The latest time and date for the acceptance and payment in full under the Open Offer will be 3 p.m. on 17 September 1998. Further information relating to the Open Offer is set out in Part II of this document and in the Application Form.

Under the Placing and Open Offer Agreement, Charles Stanley has agreed to use its reasonable endeavours to procure places and has procured places for the Firm Placing Shares and the Open Offer Shares, other than the Committed Shares. Of the Open Offer Shares, other than the Committed Shares, 297,491,177 New Ordinary Shares have been conditionally placed, subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer. The Placing and Open Offer is therefore not being underwritten. The Firm Placing Shares have been placed with Albion, Stancroft, myself, Charles Stanley on behalf of certain of the Company's employees including Laurie Todd and an existing institutional shareholder.

Directors', employees' and other shareholders' intentions in respect of the Placing and Open Offer

I have undertaken to subscribe for 100,000,000 New Ordinary Shares in the Firm Placing and Albion has undertaken to subscribe for 145,000,000 New Ordinary Shares under the Firm Placing. In addition, Albion has irrevocably undertaken to take up a total of 67,270,185 New Ordinary Shares under the Open Offer, representing 100 per cent. of Albion's entitlement. Similarly, Stancroft has undertaken to subscribe for 175,000,000 New Ordinary Shares in the Firm Placing and has irrevocably undertaken to take up a total of 16,022,500 New Ordinary Shares under the Open Offer, representing 100 per cent. of Stancroft's entitlement. Laurie Todd, who does not currently own any Ordinary Shares, is subscribing as referred to above, for 500,000 New Ordinary Shares in the Firm Placing.

The Board has given the Company's employees the opportunity to participate in the Firm Placing by allowing them to subscribe for an aggregate of 3,000,000 New Ordinary Shares through Charles Stanley, as referred to above, including the 500,000 New Ordinary Shares to be subscribed by Laurie Todd.

Details of the Relationship Agreement

Following completion of the Proposals, Albion will hold in excess of 30 per cent. of the Company's issued share capital. The Company, Albion and Farzad Rastegar (who is the beneficial owner of the entire issued voting share capital of Albion) have therefore entered into a conditional agreement governing the future relationship between them as required by the provisions of the Listing Rules governing controlling shareholders. Further details of the Relationship Agreement are set out in paragraph 14 of Part X of this document.

Arrangements with Albion and Stancroft

As shareholders are aware, on 6 March 1998, the Albion Guarantee was put in place to support the Company's bank overdraft facilities. In return, the Board has, subject to shareholder approval, agreed to issue the Convertible Shares which, assuming full conversion, will give rise to a number of New Ordinary Shares equal to 10 per cent. of the Maximum Enlarged Issued Share Capital.

The Albion Guarantee is supported by a bank guarantee procured by Albion and Stancroft and it has therefore been agreed that the Convertible Shares will be issued, as to 80 per cent., to Albion and, as to 20 per cent., to Stancroft, or such parties as they respectively may nominate.

The Convertible Shares will have a nominal value of 0.01p and will be issued at par on completion of the Proposals. The Convertible Shares will rank *pari passu* in all respects with the New Ordinary Shares including, for the avoidance of doubt, in respect of voting rights and entitlements to dividends. The Convertible Shares will not be quoted or listed on any stock exchange.

The Convertible Shares will also carry the right for the holder at any time to convert each Convertible Share into one New Ordinary Share, subject to certain adjustments.

Further details of the Convertible Shares are set out in Part VIII of this document.

The Board has agreed, subject to the implementation of the Proposals, that Albion will have the right to nominate two representatives as directors of the Company, so long as it or any other discretionary fund advised by Berkeley Capital Advisors (being the investment adviser to Albion, further details of which are set out in Part VI of this document) has an interest in at least 10 per cent. of the issued share capital from time to time of the Company carrying the right to vote at general meetings (excluding any New Ordinary Shares arising on the exercise of the Warrants or options granted under the Option Schemes). In the event that Albion's interest falls below this threshold and for so long as it retains an interest in the Company, this will reduce to a right to represent one representative as a director of the Company. This right replaces the existing right of Albion, while it remains a Shareholder, to nominate one non-executive which was granted at the time of the rights issue by the Company in August 1996.

In addition, the Board has agreed that Stancroft will have the right to nominate two directors of the Company so long as it has an interest in at least 10 per cent. of the issued share capital from time to time of the Company carrying the right to vote at general meetings (excluding any New Ordinary Shares arising on the conversion of the Convertible Shares or on the exercise of the Warrants or options granted under the Option Schemes) and one director for so long as Stancroft retains an interest in the Company.

In addition, Albion and Stancroft each have the right to receive business and financial information from the Company at any time following the implementation of the Proposals during the period that the right to nominate representatives to the Board subsists.

Arrangements with Victor Kiam

As previously announced on 6 March 1998, subject to shareholder approval, I will be issued with Warrants which, assuming full exercise immediately upon implementation of the Proposals (although such Warrants are not all immediately exercisable and are, in some cases, subject to conditions), would require the issue to me of 93,988,006 New Ordinary Shares representing 10 per cent. of the issued ordinary share capital of the Company immediately following the Placing and Open Offer (excluding any New Ordinary Shares arising on the conversion of the Convertible Shares or on the exercise of options granted under the 1998 Share Option Scheme). The terms of the Warrants provide me with the right each year to subscribe for specified numbers of New Ordinary Shares in cash at the Issue Price subject to certain adjustments from 18 September 1998 until 18 September 2003 subject to certain conditions being fulfilled. These conditions relate to myself remaining chairman of the Company throughout the relevant period and to certain share price criteria being met.

Further details of the Warrants are set out in Part VII of this document.

On 1 July 1998, it was announced that I had provided a guarantee to support the increase in the Company's bank overdraft facilities. Details of this guarantee are set out in Part X of this document.

In addition to the Warrants to be issued to me, I have undertaken to subscribe for 100,000,000 New Ordinary Shares in the Firm Placing.

Ratification of Related Party Transactions

The provision of the Albion Guarantee, the provision of the additional guarantee by myself in support of a letter of credit provided to the Bank referred to below, and the various extensions to those guarantees each constituted related party transactions as defined in the Listing Rules of the London Stock Exchange because, in each case, Albion or I (as applicable) acquired rights enforceable against the assets of the Company, whether contractually or by operation of

law. These guarantees were put in place to support the Company's working capital facilities with the Bank. The Company would normally have been required to seek prior approval from the Company's Shareholders at an extraordinary general meeting for these guarantees to be put in place and for their respective extensions. As Shareholders are aware, in the absence of on-going working capital facilities, the Company would have had no practical alternative but to take immediate steps to safeguard the interests of creditors and shareholders. As a result, the London Stock Exchange waived the normal requirements for shareholder approval, subject to later ratification of these transactions in connection with the Proposals. Shareholders are therefore now being asked to ratify these transactions at the EGM.

It is anticipated that these guarantees will be released upon implementation of the Proposals. The Bank has agreed in principle to provide new facilities to the Company conditional, *inter alia*, on the implementation of the Proposals.

In accordance with the provisions of the Listing Rules, Albion and Stancroft are required to abstain from voting on Resolution 4 (ratification of Related Party Transactions) in respect of the Ordinary Shares held by them.

In addition, in accordance with the provisions of the Listing Rules, Albion is required to abstain from voting on Resolution 2 (approval of amendments to Articles of Association) and Resolution 6 (approval of Relationship Agreement) in view of its interest in the matters subject of those Resolutions in respect of the Ordinary Shares held by it.

Option Schemes

The Board has approved the 1998 Share Option Scheme which is intended to provide appropriate incentives to employees of the Group. Further details are set out in Part IX. It is intended that there will be conditions attaching to the exercise of such options relating, firstly, to the relevant employee remaining in office for a defined period and, secondly, to certain share price criteria being achieved, or such other criteria as the Board may resolve, subject to the rules of the 1998 Share Option Scheme.

Further details of the 1998 Share Option Scheme are set out in Part IX of this document.

The maximum number of New Ordinary Shares to be issued under the terms of the 1998 Share Option Scheme and the 1994 Share Option Scheme will be 93,988,006 New Ordinary Shares representing 10 per cent. of the issued ordinary share capital immediately following the Placing and Open Offer excluding the New Ordinary Shares arising upon exercise of the Warrants or upon the conversion of the Convertible Shares. As a result, the 1998 Share Option Scheme will not comply with current recommended limits for such schemes. The Board believes that such non-compliance is justified taking into account the size of the Company, its current financial position and the Company's need to attract and retain appropriate management. The 1994 Share Option Scheme will be maintained by the Company.

The City Code

Under Rule 9 of the City Code, when a person or a group of persons acting in concert acquires shares in a company which is subject to the City Code, and *inter alia* such shares, when taken together with shares, if any, already held, would result in such person or group of persons holding shares carrying 30 per cent. or more of the voting rights of such company, such person or group of persons is normally required by the Panel to make a general offer to all other shareholders for the remaining shares in the capital of that company.

For the purposes of the City Code, Albion, Stancroft and I are deemed to be acting in concert.

Albion currently owns approximately 17.67 per cent. of the ordinary share capital of the Company (being a "relevant shareholding" for the purposes of the City Code) and has irrevocably committed to take up 67,270,185 New Ordinary Shares under the Open Offer, representing its entire entitlement as at the Record Date. Furthermore, Albion has agreed to subscribe for 145,000,000 New Ordinary Shares in the Firm Placing.

Stancroft currently owns approximately 4.21 per cent. of the ordinary share capital of the Company (being a "relevant shareholding" for the purposes of the City Code) and has irrevocably committed to take up 16,022,500 New Ordinary Shares under the Open Offer, representing its entire entitlement as at the Record Date. Furthermore, Stancroft has agreed to subscribe for 175,000,000 New Ordinary Shares in the Firm Placing.

Currently, I do not hold any Ordinary Shares but I have agreed to subscribe for 100,000,000 New Ordinary Shares in the Firm Placing.

Therefore, if implemented, the Proposals will result in Albion, Stancroft and I holding, in aggregate, 49.09 per cent. of the issued ordinary share capital of the Company.

In addition, Albion and Stancroft will hold Convertible Shares, convertible into New Ordinary Shares at any time, and which on full conversion would result in Albion and Stancroft holding a further 100,253,874 and 25,063,468 New Ordinary Shares respectively, representing, in aggregate, a further 10 per cent. of the Maximum Enlarged Issued Share Capital.

Further, I will hold Warrants (first exercisable on 18 September 1998) to subscribe (subject to certain conditions) for, in aggregate, a further 93,988,006 New Ordinary Shares representing a further 10 per cent. of the issued share capital of the Company immediately following the Placing and Open Offer.

Therefore, in aggregate, assuming full conversion of the Convertible Shares and exercise of the Warrants, Albion, Stancroft and I will hold, in aggregate, 64.03 per cent. of the Company's then enlarged issued ordinary share capital, (excluding any New Ordinary Shares arising on the exercise of options granted under the 1998 Share Option Scheme).

The following table sets out the number of New Ordinary Shares, Convertible Shares and Warrants, where applicable, that Albion, Stancroft and I hold, together with the percentage of the Company's voting rights each holding represents following the implementation of the Proposals:

| | <i>Albion</i> | <i>Stancroft</i> | <i>Victor Kiam</i> | <i>Concert Parties</i> |
|---|---------------|------------------|--------------------|------------------------|
| Holding of New Ordinary Shares | 228,098,464 | 194,792,500 | 100,000,000 | 522,890,964 |
| Percentage of voting rights ¹ | 21.41% | 18.29% | 9.39% | 49.09% |
| Holding of Convertible Shares ¹ | 100,253,874 | 25,063,468 | — | 125,317,342 |
| Percentage of voting rights ¹ | 9.41% | 2.35% | — | 11.76% |
| Subtotal percentage of voting rights | 30.82% | 20.64% | 9.39% | 60.85% |
| Holding of Warrants ² | — | — | 93,988,006 | 93,988,006 |
| Percentage of voting rights ² | — | — | — | — |
| Holding of New Ordinary Shares assuming full exercise of Warrants | 328,352,338 | 219,855,968 | 193,988,006 | 742,196,312 |
| Percentage of voting rights | 28.33% | 18.97% | 16.73% | 64.03% |

Notes

¹ The Convertible Shares carry the same voting rights as the New Ordinary Shares

² The Warrants are not entitled to vote at general meetings

³ This table takes no account of any New Ordinary Shares arising upon the exercise of options granted under the 1998 Share Option Scheme

Rule 9 of the City Code also provides that where any person or group of persons acting in concert holds not less than 30 per cent. but not more than 50 per cent. of a company's voting rights and acquires, in any period of 12 months, additional shares carrying more than one per cent. of the voting rights, such person or group is required to make a general offer to all other shareholders of the Company.

The Panel has however agreed, subject to approval by the Company's independent ordinary shareholders voting on a poll in general meeting, to waive any obligation for the Concert Party, or any member of it, to make a general offer to other shareholders under Rule 9 of the City Code for shares in the Company as a result of: (i) the implementation of the Proposals; and (ii) the exercise of the Warrants (together the "Whitewash"). Accordingly, a poll will be held on Resolution 5, to be proposed as an ordinary resolution at the Extraordinary General Meeting, approving the waiver of the requirement that the Concert Party, or any member of it, should make such a general offer. To be passed, the resolution will require the approval of a simple majority of the votes cast by independent shareholders on that poll. Albion and Stancroft will be abstaining from voting on such poll. I do not currently hold any Ordinary Shares.

Following the Proposals the Concert Party or any member of it will be free to acquire New Ordinary Shares without restriction and without any obligation to make an offer for the New Ordinary Shares not owned by them, save upon the exercise of the Warrants, which are the subject of the Whitewash, provided that such acquisition does not result in any Concert Party or the Concert Parties together acquiring in any 12 month period additional shares carrying more than 1 per cent. of the voting rights of the Company. However, no individual member of the Concert Party may acquire 30 per cent. or more of the voting rights of the Company without triggering an obligation to make a general offer under Rule 9 of the City Code, save pursuant to matters the subject of the Whitewash.

Shareholders should also be aware that the Concert Parties, acting together, will hold over 50 per cent. of the issued ordinary share capital of the Company and this will give the Concert Parties the ability to exert a very significant degree of control over the future conduct of the Company. In particular, the Concert Parties will, subject to the restrictions referred to above relating to individual members or the Concert Party, be entitled to acquire additional shares in the Company carrying voting rights without restriction and without any obligation to make an offer for New Ordinary Shares not owned by them. Further, in addition to the contractual rights of Albion and Stancroft to nominate directors to the Board, as described above, the Concert Parties will, acting together, have the power to appoint or remove directors and to control the Company's dividend policy.

The Concert Parties have indicated that they have no present intention of seeking to implement any changes to the business of the Group other than to implement the business plan outlined above. The rights of existing employees will not be altered on implementation of the Proposals.

Capital Reorganisation

It is proposed, subject to the passing of the relevant Resolutions, to sub-divide each existing Ordinary Share, which currently has a nominal value of 5p, into one New Ordinary Share with a nominal value of 0.01p and one Deferred Share with a nominal value of 4.99p. Each resulting New Ordinary Share will form one class with, and have the same rights (including voting and dividend rights and rights on a return of capital) as, the New Ordinary Shares to be issued pursuant to the Proposals. New share certificates in respect of the New Ordinary Shares created pursuant to the Capital Reorganisation are expected to be despatched at the same time as certificates in respect of the New Ordinary Shares taken up under the Placing and Open Offer, shortly after the EGM.

The restrictions attaching to the Deferred Shares, which will not be listed, will render them effectively valueless. No certificates will be issued to Shareholders in respect of the Deferred Shares. It is intended that the Deferred Shares will either be cancelled by means of a capital reduction at a later date or be re-purchased by the Company pursuant to the terms of the Deferred Shares.

Proposed amendments to the Articles of Association

The Articles of Association are to be amended to incorporate the rights attaching to the Convertible Shares and the Deferred Shares to be created pursuant to the Proposals. Further minor amendments are proposed to the Company's Articles of Association to ensure their compliance with the Listing Rules. Full details of the proposed amendments are set out in Resolution 2 contained in the notice of EGM at the end of this document.

Extraordinary General Meeting

You will find at the end of this document a notice convening an Extraordinary General Meeting of the Company to be held, immediately following the AGM convened for 2.00 p.m. on 18 September 1998, at 25 Luke Street, London EC2A 4AR. At the EGM, which will be an extraordinary general meeting convened for the purposes of section 142 of the Act, resolutions will be proposed for the following purposes, of which the Resolutions referred to at paragraphs 1 and 2 below will be proposed as special resolutions and the Resolutions referred to at paragraphs 3 to 7 below will be proposed as ordinary resolutions:

1. (A) To sub-divide each existing issued and unissued Ordinary Share into one New Ordinary Share and one Deferred Share;
(B) To increase the authorised share capital of the Company from £6,849,201 to £20,000,000 by the creation of an additional 131,382,672,700 New Ordinary Shares and the creation of 125,317,342 Convertible Shares;
(C) To authorise the Directors pursuant to section 80 of the Act to allot relevant securities (being the New Ordinary Shares, the Convertible Shares, and the Warrants) up to a maximum aggregate nominal amount of £147,687.05, such authority to expire five years from the date that the relevant resolution is passed (subject to earlier revocation or variation);
(D) To disapply the statutory pre-emption provisions of section 89(1) of the Act (pursuant to section 95 of the Act) so as to enable the Directors to allot the New Ordinary Shares pursuant to the Placing and Open Offer, to allot the Convertible Shares pursuant to the Subscription, to issue the Warrants to allot equity securities in connection with any offer by way of rights to Shareholders (subject as provided in the relevant Resolution) and to make other allotments of equity securities up to a maximum aggregate nominal amount of £115,918.54 representing approximately 5% of the estimated Enlarged Issued Share Capital.
2. To amend the Articles of Association of the Company in connection with the creation of the Convertible Shares and Deferred Shares, and other minor amendments to ensure compliance with the Listing Rules of the London Stock Exchange.
3. To approve the creation and the issue of the Warrants.
4. To ratify and approve the Albion Guarantee and Kiam Guarantee and extensions to those guarantees as referred to above.
5. To approve the Proposals for the purposes of the Whitewash under Rule 9 of the City Code in relation to Albion, Stancroft and myself as referred to above.
6. To approve and authorise the execution of the Relationship Agreement as referred to above.
7. To approve and adopt the 1998 Share Option Scheme as referred to above.

Albion and Stancroft who, in aggregate hold 19,598,279 Ordinary Shares and are related parties in respect of the transactions referred to at paragraph 4 above, have agreed to abstain, and have undertaken to take all reasonable steps to ensure that any parties associated with them will also abstain, from voting on Resolution 4 to be proposed at the Extraordinary General Meeting.

The Proposals require, *inter alia*, the approval by Shareholders of all the Resolutions at the Extraordinary General Meeting to be held on 18 September 1998. The successful implementation of the Proposals is critical to the future of the Group as described on page 6. The Directors strongly urge Shareholders to vote in favour of the Resolutions whether or not they intend to take up their respective entitlements under the Open Offer.

Taxation

Your attention is drawn to paragraph 12 of Part X of this document, which contains information regarding taxation in relation to the Placing and Open Offer and dividends. If you are in any doubt as to your tax position you should consult your own independent financial adviser without delay.

Action to be taken

Shareholders will find enclosed with this document a Form of Proxy for use at the Extraordinary General Meeting. You are requested to complete this in accordance with the instructions thereon and return it to Connaught St Michaels as soon as practicable and, in any event, so as to be received not later than 10.10 a.m. on 18 September 1998. Completion and return of a Form of Proxy will not preclude you from attending the Extraordinary General Meeting and voting in person, should you wish to do so.

The action to be taken in relation to the Open Offer is described in Part II of this document.

Further Information

Your attention is drawn to the further information set out in Parts II and X of this document and in the Application Form.

Recommendation

The Directors, who have received financial advice from Charles Stanley, consider the Proposals described in this document to be in the best interests of the Company and its Shareholders as a whole. In providing this financial advice, Charles Stanley has taken into account the current financial position of the Group as described in this letter and the Directors' commercial assessment of the Proposals. Shareholders should be aware of certain key assumptions that have been made as laid out on page 7 of this Part 1 under the heading, "Business Plan". Accordingly, the Directors unanimously recommend that you vote in favour of the Resolutions numbered 1 and 7 to be proposed at the EGM as they intend to do in respect of their own beneficial holdings totalling 15,828,279 existing Ordinary Shares, representing approximately 17.67 per cent. of the existing Ordinary Shares in issue.

Laurie Todd and I being the only independent Directors in relation to the proposed amendments to the Articles of Association of the Company contained in Resolution 2, who have been so advised by Charles Stanley, believe that the terms of the proposed amendments to the Articles of Association (including the proposed terms of the Convertible Shares) are fair and reasonable so far as the Shareholders are concerned. In providing this advice, Charles Stanley has taken account of the independent Director's commercial assessment of the proposed amendments to the Articles of Association, including the proposed terms of the Convertible Shares. Accordingly, Laurie Todd and I, as such independent Directors, recommend you to vote in favour of Resolution 2 to be proposed at the EGM. Farzad Rastegar has not participated in the considerations relating to Resolution 2.

Farzad Rastegar and Laurie Todd, being the only independent Directors in relation to the Warrants, who have been so advised by Charles Stanley, believe that the terms of the Warrants are fair and reasonable so far as the Shareholders are concerned. In providing this advice Charles Stanley has taken account of the independent Director's commercial assessment of the terms of the Warrants. Accordingly, Farzad Rastegar and Laurie Todd, as such independent Directors, recommend you to vote in favour of Resolution 3 to be proposed at the EGM. I have not participated in the considerations relating to Resolution 3.

Laurie Todd, being the only independent Director in relation to the Related Party Transactions, who has been so advised by Charles Stanley, believes that the terms of the Related Party Transactions entered into by the Company are fair and reasonable so far as the Shareholders are concerned. In providing this advice, Charles Stanley has taken account of the independent Director's commercial assessment of the Related Party Transactions. Accordingly, Laurie Todd, as such independent Director, recommends you to vote in favour of Resolution 4 to be proposed at the EGM. Neither Farzad Rastegar nor I have participated in the considerations relating to Resolution 4.

Laurie Todd, being the only independent Director in relation to the Whitewash, who has been so advised by Charles Stanley, considers that the waiver of the provisions of Rule 9 of the City Code is in the best interests of the Company and its Shareholders. Accordingly, Laurie Todd, being such independent Director, recommends you to vote in favour of Resolution 5.

Laurie Todd and I, being the only independent Directors in relation to the Relationship Agreement, who have been so advised by Charles Stanley, believe that the terms of the Relationship Agreement to be entered into by the Company are fair and reasonable so far as the Shareholders are concerned. In providing this advice, Charles Stanley has taken account of the independent Directors commercial assessment of the Relationship Agreement. Accordingly, Laurie Todd and I, as such independent Directors, recommend you to vote in favour of Resolution 6 to be proposed at the EGM. Farzad Rastegar has not participated in the considerations relating to Resolution 6.

Albion and Stancroft who, in aggregate, hold 19,598,279 Ordinary Shares representing in aggregate approximately 21.88 per cent. of the existing issued ordinary share capital of the Company have agreed to abstain, and have undertaken to take all reasonable steps to ensure that any parties associated with them respectively will also abstain, from voting on Resolutions 4 (approval of Related Party Transactions) and 5 (approval of the Whitewash) at the Extraordinary General Meeting.

Albion, who holds 15,828,279 Ordinary Shares representing approximately 17.67 per cent. of the existing issued ordinary share capital of the Company has agreed to abstain and has undertaken to take all reasonable steps to ensure that any parties associated with it will also abstain from voting on Resolution 2 (approval of amendments to Articles of Association) and 6 (approval of the Relationship Agreement) at the Extraordinary General Meeting.

Neither I nor any of my associates, as at the date of this document, hold any Ordinary Shares and cannot therefore vote at the EGM.

Yours faithfully

Victor K Kiam
Chairman

PART II
LETTER FROM CHARLES STANLEY & COMPANY LIMITED

Charles Stanley & Company Limited
25 Luke Street
London EC2A 4AR

26 August 1998

To Qualifying Shareholders

Dear Sir or Madam,

Proposed Placing and Open Offer of 850,283,862 New Ordinary Shares at 1p per share

As the letter from your Chairman set out in Part I of this document explains, the Company proposes to raise approximately £8.0 million, net of expenses, by way of the Proposals. Charles Stanley, as agent for the Company, is hereby inviting applications from Qualifying Shareholders to apply for Open Offer Shares under the Open Offer.

Pursuant to the terms of the Placing and Open Offer Agreement, Charles Stanley has agreed to use its reasonable endeavours to procure and has procured placees for 469,500,000 New Ordinary Shares on a firm basis and for the Open Offer Shares, other than the Committed Shares, subject to clawback to satisfy valid applications by Qualifying Shareholders for New Ordinary Shares under the Open Offer. Placees have agreed (subject to the clawback referred to above) to subscribe for all the New Ordinary Shares, other than the Committed Shares, to be issued in connection with the Placing and Open Offer. This letter sets out the formal terms and conditions of the Open Offer and should be read in conjunction with the rest of this document and the Application Form.

1. The terms and conditions of the Open Offer

Charles Stanley, as agent for and on behalf of the Company, hereby invites Qualifying Shareholders, subject to the terms and conditions set out below and in the Application Form, to apply for New Ordinary Shares at the Issue Price, payable in full on application, on the basis of:

17 New Ordinary Shares for every 4 existing Ordinary Shares

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

Fractional entitlements will not be allotted to Qualifying Shareholders and Qualifying Shareholders' entitlements will be rounded down to the nearest whole number of New Ordinary Shares. Fractional entitlements will be aggregated and sold in the market for the benefit of the Company. Holdings of existing Ordinary Shares in certificated form and in uncertificated form will be treated as separate holdings for the purposes of calculating entitlements under the Open Offer.

Application may be made by Qualifying Shareholders under the Open Offer for any whole number of New Ordinary Shares up to their maximum *pro rata* entitlement, which is indicated in Box 2 on the Application Form accompanying this document. Qualifying Shareholders wishing to apply for New Ordinary Shares in excess of their maximum entitlement may do so, indicating the total number of New Ordinary Shares applied for in Box 4 on the Application Form. New Ordinary Shares will become available to satisfy such excess applications only to the extent that Qualifying Shareholders have not taken up their full entitlement under the Open Offer. Excess applications may be scaled down or declined in the absolute discretion of the Directors. The result of the Open Offer and the basis of allocation of excess applications will be announced by the Company as soon as is reasonably practicable following the closing of the Open Offer.

The Open Offer Shares will, once allotted and fully paid, rank *pari passu* in all respects, including the right to receive dividends, with the New Ordinary Shares created pursuant to the Capital Reorganisation and issued under the Placing. Overseas Shareholders should read paragraph 3 below.

Registered Office: 25 Luke Street, London EC2A 4AR
Registered in England no. 1903304
Regulated by The Securities and Futures Authority Limited

Application may only be made on the Application Form, which is personal to the Qualifying Shareholder(s) named therein and may not be assigned, transferred or split except to satisfy bona fide market claims. Qualifying Shareholders who have sold or transferred all or part of their registered holdings of Ordinary Shares are advised to consult their stockbroker, bank or other agent through or by whom the sale or transfer was effected as soon as possible since the benefits arising under the Open Offer may be claimed from them by purchasers or transferees under the rules of the London Stock Exchange.

The Application Form represents a right to apply for New Ordinary Shares. It is not a document of title and cannot be traded. Any Open Offer Shares for which application is not made by Qualifying Shareholders in accordance with the terms of the Open Offer will be issued under the terms of the Placing and Open Offer Agreement to placees and the proceeds retained for the benefit of the Company. There will be no sale in the market of any entitlement to subscribe for New Ordinary Shares not taken up by Qualifying Shareholders under the Open Offer, save in relation to fractional entitlements referred to above.

Application has been made to the London Stock Exchange for the admission to the Official List of the New Ordinary Shares to be created or issued pursuant to the Proposals. It is expected that dealings in the New Ordinary Shares will commence on 21 September 1998. The New Ordinary Shares when allotted and issued will be credited as fully paid and with the benefit of and subject to the restrictions relating to such New Ordinary Shares as set out in the Articles of Association as amended by Resolution 2 in the notice of EGM set out at the end of this document. The New Ordinary Shares have not been marketed nor, other than in conjunction with the Placing and Open Offer, are they available in whole or in part to the public. New Ordinary Shares have been made available to independent market makers, subject to clawback to satisfy valid applications under the Open Offer.

The Placing and Open Offer is subject to the Placing and Open Offer Agreement having become unconditional on or before 21 September 1998 (or such later date as Charles Stanley and the Company may agree being not later than 5 October 1998) and not having been terminated in accordance with its terms. The Placing and Open Offer Agreement, details of which are set out in paragraph 14 of Part X of this document, is conditional, *inter alia*, on:

- (a) the passing of the Resolutions at the EGM or any adjournment thereof;
- (b) there having been no material breach of any warranty given by the Company and the Directors prior to Admission; and
- (c) Admission becoming effective by 9 a.m. on 21 September 1998 (or such later date as Charles Stanley may agree with the Company).

2. Procedure for application

The enclosed Application Form shows the number of existing Ordinary Shares registered in your name on the Record Date and also shows your maximum *pro rata* entitlement to New Ordinary Shares under the Open Offer. The Application Form incorporates further terms of the Open Offer and must be used if you wish to apply for New Ordinary Shares under the Open Offer. You may apply for more or less than your maximum entitlement of New Ordinary Shares if you so wish.

If you wish to apply for all or any of the New Ordinary Shares comprising your entitlement under the Open Offer, you must complete the Application Form in accordance with the instructions printed in it. Completed Application Forms should be returned by post in the reply paid envelope provided with a cheque or banker's draft drawn in sterling on a bank or building society in the United Kingdom, the Channel Islands, or the Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS & Town Clearing Company Limited or a member of either of the committees of the Scottish or Belfast Clearing Houses, or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided for members of any of those companies or committees. Such cheques or banker's drafts must bear the appropriate sorting code in the top right hand corner, and must be for the full amount payable on application. Any application which does not comply with these requirements may be treated as invalid. Applications and payment in full must be received no later than 3 p.m. on 17 September, after which time, subject to the Company's rights referred to below, Application Forms will not be valid. Once submitted, applications are irrevocable. Cheques should be made payable to "Connaught St Michaels Limited - A/C Ronson plc" and crossed "A/C Payee Only". It is a condition of application that cheques will be honoured on first presentation and the Company may elect not to treat as valid any application in respect of which a cheque is not so honoured. A pre-paid addressed envelope is enclosed for your use.

Cheques and banker's drafts are liable to be presented for payment upon receipt and the Company reserves the right to instruct Connaught St. Michaels to seek special clearance of cheques to allow the Company to obtain value for remittances at the earliest opportunity. The application monies will, until the conditions of the Open Offer are fulfilled, be held in a separate bank account and any interest earned on such monies will be retained for the benefit of the Company. If the conditions of the Placing and Open Offer are not fulfilled on or before 21 September 1998 (or such later date, being not later than 5 October 1998, as the Company and Charles Stanley may agree) the Open Offer will lapse and application monies will be returned without interest by crossed cheque in favour of the applicant(s) through the post at the risk of the applicant(s) as soon as is practicable.

The Company reserves the right (but shall not be obliged) to accept (i) Application Forms and accompanying remittances which are received through the post by no later than 10 a.m. on 18 September 1998, being the business day following the latest date for receipt of completed Application Forms and payment in full (the envelope bearing a legible postmark of not later than 3 p.m. on 17 September 1998) and (ii) Application Forms where the required remittance for the full amount is received prior to 3.00 p.m. on 17 September 1998, being the latest date for receipt of completed Application Forms and payment in full, from an authorised person (as defined in the Financial Services Act 1986) specifying the Open Offer Shares concerned and undertaking to lodge the relevant Application Form duly completed in due course (whether on its own behalf or on behalf of any client).

It is a term of the Open Offer that the Company, or Connaught St. Michaels, as receiving agents on its behalf, may in their absolute discretion require verification of identity from persons lodging Application Forms for registration and payment by way of cheque or banker's draft drawn on an account in the name of a person or persons other than the applicant, to ensure compliance with the Money Laundering Regulations 1993. For United Kingdom applicants, this may involve verification of names and addresses of such applicants through a reputable agency. For non-United Kingdom applicants, verification of identity may be sought from your bankers or from another reputable institution or professional adviser in the applicant's country of residence. If by 3 p.m. on 17 September 1998 the Company, or its registrars as receiving agents, have not received evidence satisfactory to them as aforesaid, the Company may, in its absolute discretion, reject the application, in which event, application monies will be returned to the applicant without interest (at the applicant's risk).

By completing and delivering an Application Form, Qualifying Shareholders:

- (a) agree that all applications, contracts and obligations resulting from such application shall be governed by, and construed in accordance with, English law; and
- (b) confirm that they have not relied on any information or representation other than such as may be contained in this document and the Application Form.

If you do not wish to apply for any New Ordinary Shares you should not complete the enclosed Application Form. You are nevertheless requested to complete and return the enclosed Form of Proxy for use at the EGM.

3. Overseas shareholders

The making of the Open Offer to persons not resident in the United Kingdom may be affected by the laws or regulatory requirements of relevant jurisdictions. No person receiving a copy of this document and/or any Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form, unless, in the relevant territory, such Application Form could lawfully be used without contravention of any registration or other legal or regulatory requirements. **It is the responsibility of any person outside the United Kingdom wishing to apply for Open Offer Shares to satisfy himself as to the full observance of the laws or regulations of the relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required and compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territory.**

The Company reserves the right, in its absolute discretion, to treat the Open Offer as having been declined in a particular case if it believes acceptance may violate applicable legal or regulatory requirements.

In particular, overseas Shareholders should note the following:

The Open Offer Shares have not been and will not be registered under the United States Securities Act of 1933 as amended (the "Securities Act") or under the securities laws of any state of the United States, nor have the relevant exemptions or clearances been, nor will they be, obtained from the securities commission of any province or territory of Canada. No document in relation to the Open Offer Shares has been or will be lodged with, or registered by, the Australian Securities Commission. Accordingly, the Open Offer Shares are not being offered for sale and may not be, directly or indirectly, offered, sold, transferred or delivered in or into the United States, Canada or Australia or to or for the benefit of any person located in, or resident of, the United States, Canada or Australia. Application Forms will therefore not be sent to shareholders who have registered addresses in the United States, Canada or Australia.

The making of an application under the Open Offer will constitute a warranty that the applicant is not a US person (as defined in Regulation S promulgated under the Securities Act) or a resident of Canada or Australia and is not applying on behalf of such a person with a view to re-offer, re-sale, transfer or deliver of New Ordinary Shares directly or indirectly in or into the United States, Canada or Australia.

This document is being sent for information only to those Shareholders who are unable to comply with the requirements of the laws of the overseas territory to which they are subject and will not constitute an offer or invitation to such persons to subscribe or purchase New Ordinary Shares.

The Company and Charles Stanley nonetheless reserve the right to make Open Offer Shares available to overseas shareholders notwithstanding any statement contained in this document, if they are advised to their satisfaction that any such shareholder can properly accept an offer or invitation to subscribe for Open Offer Shares without observance by the Company or Charles Stanley of any requirement which it (in its sole discretion) regards as unduly burdensome.

4. Taxation

Shareholders are referred to the information set out in paragraph 12 of Part X.

If you are in any doubt as to your tax position you should consult your own professional adviser.

5. Settlement and Dealings

Application has been made to the London Stock Exchange for the admission to the Official List of the New Ordinary Shares to be created or issued pursuant to the Capital Reorganisation and the Placing and Open Offer. It is expected that Admission will take place and that dealings in the New Ordinary Shares will commence on 21 September 1998, subject to the conditions attached to the Placing and Open Offer Agreement having been satisfied or where applicable, waived by that time. It is expected that the definitive title to the New Ordinary Shares will be delivered either under CREST on the date of Admission where delivery is requested in uncertificated form, or by first class post by no later than five business days from Admission where delivery is requested in certificated form. No temporary documents of title will be issued and the New Ordinary Shares will be in registered form. In the case of joint holders, despatch will be to the address of that joint holder whose name stands first in the register of members in respect of the joint holding concerned. Pending the despatch of definitive certificates, transfers will be certified against the register of members. All documents or remittances sent by or to any applicant, or as they may direct, will be sent through the post at their risk. Any instructions with regard to payments or notices recorded by the Company or its Registrars in respect of holdings of existing Ordinary Shares shall also apply to the New Ordinary Shares.

6. Further information

Your attention is drawn to the additional information set out in Parts III to X of this document and the notice of EGM at the end of this document.

Yours faithfully

Director

for and on behalf of
Charles Stanley & Company Limited

PART III

FINANCIAL INFORMATION RELATING TO THE COMPANY

The financial information set out below has been extracted without material adjustment from the published audited financial statements of Ronson for the three financial years ended 31st December 1997.

The financial information concerning the Group does not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts for each of the three years ended 31st December 1997 have been delivered to the Registrar of Companies.

The Company's auditors for the two years ended 31st December 1996 were Coopers & Lybrand, 1 Embankment Place, London, WC2N 6NN. Coopers & Lybrand reported under section 235 of the Act in respect of the two sets of statutory accounts, the audit opinions on which were all unqualified.

The Company's auditors for the year ended 31st December 1997 were Price Waterhouse, Southwark Towers, 32 London Bridge Street, London SE1 9SY. The statutory accounts for that period were qualified as follows:

"We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Limitation of audit scope

The evidence available to us in respect of the transactions during the first six months of the financial year was limited following a breakdown in the Group's accounting systems during the period.

A detailed exercise has been undertaken by the Group to prepare accounting records for this period. In many cases documentary evidence to support transactions is incomplete, and assumptions have had to be made in accounting for them. As a consequence, we have been unable to obtain sufficient evidence to form an opinion as to the allocation of certain costs within the profit and loss account and also their allocation between the current and prior financial years. In addition we are unable to conclude whether the accounting records reflect all of the transactions undertaken by the Group during the year.

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the financial support currently being given by the Group's Bank, Albion Consortium Fund Limited and the Group's Chairman and the uncertainty over the continuance of bank finance and the successful completion of the proposed placing and open offer to Shareholders. In view of the significance of this uncertainty we consider it should be drawn to your attention, but our opinion is not qualified in this respect.

Qualified opinion arising from limitation in audit scope

In our opinion, except for any adjustments that might have been necessary had we been able to obtain additional documentary evidence as discussed in the paragraphs concerning limitation of scope above, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 1997 and of the Group's loss and cashflows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect of the limitation of the scope of our work relating to the first six months of the year, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit and in our opinion proper accounting records have not been maintained for this period."

1. Principal accounting policies and basis of preparation

Basis of preparation

A recapitalisation by way of a proposed placing and open offer has been proposed by the Group to raise approximately £8.5 million (£8.0 million net of expenses). The Group's bankers agreed to continue to make available

their existing overdraft facilities pending the completion of the recapitalisation, and to provide additional overdraft facilities on the basis of guarantees procured by Albion Consortium Fund Limited (the Group's major shareholder), Stancroft Trust Limited and the Group's Executive Chairman, Victor Kiam. In the absence of these guarantees, the Group would have had no practical alternative but to implement immediately steps to safeguard the interests of creditors and shareholders.

Firm commitments have been received in respect of approximately £4.7 million by way of the share placing and the remainder of approximately £3.8 million will be raised by way of the open offer to qualifying shareholders. Commitments have been received in respect of any shares not taken up by qualifying shareholders under the Open Offer. Both the share placing and open offer will be conditional upon the approval of shareholders and admission of the shares to be issued to the London Stock Exchange.

The Directors of Ronson are confident that, in the absence of unforeseen circumstances and with the approval of the Company's Shareholders of the Resolutions to be put to them at the EGM, the recapitalisation will be completed and that the Group will be able to continue in existence. As a consequence, the financial statements have been prepared on the going concern basis.

In the event that the recapitalisation is not successfully completed or that the facilities cease to be available in the period prior to the recapitalisation, there can be no assurance that the Group will be able to continue in existence. The financial statements do not include any adjustments that would result from a failure to obtain the required funding.

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December annually. The results of subsidiaries and businesses acquired or sold are included in the consolidated profit and loss account from or to the date control passes.

On acquisition of a subsidiary or business, all of the assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Goodwill

Goodwill arising on acquisition and consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiaries and other businesses is written off immediately against reserves.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

| | |
|--|-----------------------------------|
| Short leasehold land and buildings | Lease term |
| Motor vehicles | 25% per annum |
| Plant and machinery, fixtures and fittings | 15% per annum |
| | or 10% - 20% on reducing balances |

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Stocks

Stocks are stated at the lower of cost and net realisable value. In the case of manufactured products cost includes all direct expenditure and production overheads. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Turnover

Turnover, which excludes value added tax, sales between Group companies and trade discounts, represents the invoiced value of goods and services applied.

Deferred taxation

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

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Pension costs

The Group contributes to defined contribution pension schemes on behalf of certain senior executives. The amount charged to the profit and loss account represents contributions due for the period payable to the individual policies effected by employees with independent insurance companies.

2. Consolidated profit and loss account

| | Notes | Year Ended 31st December | | |
|---|-------|--------------------------|----------------|---------------|
| | | 1997 £'000 | 1996 £'000 | 1995 £'000 |
| Turnover - continuing operations | 5.1 | 26,271 | 31,580 | 33,949 |
| - discontinued operations | | — | — | 7 |
| | | <u>26,271</u> | <u>31,580</u> | <u>33,956</u> |
| Cost of sales | 5.2 | (22,379) | (24,917) | (22,265) |
| | | <u>3,892</u> | <u>6,663</u> | <u>11,691</u> |
| Gross profit | | | | |
| Net operating expenses | | (15,287) | (12,063) | (7,255) |
| Other operating income | 5.2 | — | 3,195 | — |
| Operating (loss)/profit | | | | |
| - continuing operations | | (11,395) | (2,205) | 4,514 |
| - discontinued operations | | — | — | (78) |
| | | <u>(11,395)</u> | <u>(2,205)</u> | <u>4,436</u> |
| Exceptional items - profit on disposal of fixed assets | 5.3 | — | 586 | — |
| Net interest payable | 5.6 | (109) | (555) | (421) |
| | | <u>(11,504)</u> | <u>(2,174)</u> | <u>4,015</u> |
| (Loss)/profit on ordinary activities before taxation | 5.7 | | | |
| Tax on ordinary activities | 5.8 | 814 | 152 | (1,256) |
| | | <u>(10,690)</u> | <u>(2,022)</u> | <u>2,759</u> |
| (Loss)/profit for the financial year | | | | |
| Dividends | 5.9 | — | (112) | (672) |
| | | <u>(10,690)</u> | <u>(2,134)</u> | <u>2,087</u> |
| Retained (loss)/profit for the year | 5.19 | | | |
| (Loss)/profit per ordinary share | 5.10 | (11.93p) | (2.33p) | 3.42p |

The Group has no recognised gains and losses other than those included above and therefore no separate statement of recognised gains and losses has been presented.

3. Consolidated Balance Sheet

| | <i>Notes</i> | <i>As at 31st December</i> | | |
|---|--------------|-----------------------------|-----------------------------|-----------------------------|
| | | <i>1997</i> <i>£'000</i> | <i>1996</i> <i>£'000</i> | <i>1995</i> <i>£'000</i> |
| Fixed assets | | | | |
| Tangible assets | 5.11 | <u>599</u> | <u>1,094</u> | <u>1,588</u> |
| Current assets | | | | |
| Stocks | 5.13 | 5,340 | 6,064 | 5,763 |
| Debtors | 5.14 | 4,752 | 9,368 | 11,014 |
| Cash at bank and in hand | | <u>—</u> | <u>1,136</u> | <u>—</u> |
| | | 10,092 | 16,568 | 16,777 |
| Creditors: | | | | |
| amounts falling due within one year | 5.15 | <u>(11,156)</u> | <u>(7,338)</u> | <u>(10,831)</u> |
| Net current (liabilities)/assets | | <u>(1,064)</u> | <u>9,230</u> | <u>5,946</u> |
| Total assets less current liabilities | | <u>(465)</u> | <u>10,324</u> | <u>7,534</u> |
| Creditors: | | | | |
| amounts falling due after more than one year | 5.16 | (416) | (515) | (5,646) |
| Provisions for liabilities and charges | 5.17 | <u>(219)</u> | <u>(219)</u> | <u>(507)</u> |
| | | <u>(635)</u> | <u>(734)</u> | <u>(6,153)</u> |
| Net (liabilities)/assets | | <u>(1,100)</u> | <u>9,590</u> | <u>1,381</u> |
| Capital and reserves | | | | |
| Called up share capital | 5.18 | 4,480 | 4,480 | 2,240 |
| Share premium account | 5.19 | 13,844 | 13,844 | 5,741 |
| Goodwill reserve | 5.19 | (8,968) | (8,968) | (8,968) |
| Profit and loss account | 5.19 | <u>(10,456)</u> | <u>234</u> | <u>2,368</u> |
| Equity shareholders' funds | 5.21 | <u>(1,100)</u> | <u>9,590</u> | <u>1,381</u> |

4. Consolidated cash flow statements

| | <i>Notes</i> | <i>Year ended 31st December</i> | | |
|--|--------------|---------------------------------|----------------|----------------|
| | | <i>1997</i> | <i>1996</i> | <i>1995</i> |
| | | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Net cash (outflow)/inflow from operating activities | 5.22 | <u>(3,556)</u> | <u>211</u> | <u>(2,617)</u> |
| Returns on investments and servicing of finance | | | | |
| Interest received | | 32 | 37 | 73 |
| Interest paid | | <u>(133)</u> | <u>(592)</u> | <u>(378)</u> |
| | | <u>(101)</u> | <u>(555)</u> | <u>(305)</u> |
| Taxation | | | | |
| UK corporation tax paid | | <u>—</u> | <u>(1,048)</u> | <u>(1,386)</u> |
| Capital expenditure and financial investment | | | | |
| Purchase of tangible fixed assets | | (541) | (529) | (693) |
| Proceeds from disposal of tangible fixed assets | | 222 | 1,236 | 48 |
| Proceeds from disposal of assets held for resale | | <u>—</u> | <u>—</u> | <u>1,140</u> |
| | | <u>(319)</u> | <u>707</u> | <u>495</u> |
| Acquisitions and disposals | | | | |
| Purchase of subsidiaries | | <u>—</u> | <u>—</u> | <u>(5,177)</u> |
| Net cash acquired with subsidiary | | <u>—</u> | <u>—</u> | <u>619</u> |
| | | | | <u>(4,558)</u> |
| Equity dividends paid | | <u>—</u> | <u>(672)</u> | <u>(485)</u> |
| Cash outflow before financing | | <u>(3,976)</u> | <u>(1,357)</u> | <u>(8,863)</u> |
| Financing | | | | |
| Issue of ordinary share capital | | — | 11,200 | 4 |
| Expenses paid in connection with share issue | | — | (857) | (478) |
| New unsecured loan | | 1,360 | — | 7,000 |
| Repayment of loan | | — | (7,000) | — |
| Repayment of principal under finance leases | | <u>(10)</u> | <u>—</u> | <u>(1)</u> |
| Net cash inflow from financing | | <u>1,350</u> | <u>3,343</u> | <u>6,525</u> |
| (Decrease)/increase in cash in the year | 5.23 | <u>(2,626)</u> | <u>1,986</u> | <u>(2,338)</u> |

5. Notes to the financial information

5.1 Turnover analysis by geographical area

All sales originate, all results are generated and all net assets are located in the United Kingdom.

A geographical analysis of turnover by destination is given below:

| | <i>Year ended 31st December</i> | | |
|-------------------|---------------------------------|---------------|---------------|
| | <i>1997</i> | <i>1996</i> | <i>1995</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| United Kingdom | 16,132 | 16,526 | 18,431 |
| Rest of Europe | 4,078 | 7,451 | 6,071 |
| Asia | 2,243 | 2,322 | 4,408 |
| Rest of the World | 3,818 | 5,281 | 5,046 |
| | <u>26,271</u> | <u>31,580</u> | <u>33,956</u> |

5.2. Cost of sales and net operating expenses

| | <i>Year ended 31st December</i> | | | |
|-------------------------|---------------------------------|------------------------------|------------------------------|--------------------------------|
| | <i>1997</i> | <i>1996</i> | <i>1995</i> | <i>1995</i> |
| | <i>Continuing operations</i> | <i>Continuing operations</i> | <i>Continuing operations</i> | <i>Discontinued operations</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Turnover | 26,271 | 31,580 | 33,949 | 7 |
| Cost of sales | (22,379) | (24,917) | (22,260) | (5) |
| Gross profit | <u>3,892</u> | <u>6,663</u> | <u>11,689</u> | <u>2</u> |
| Distribution costs | (5,186) | (3,183) | (2,279) | — |
| Administrative expenses | (10,101) | (8,880) | (14,896) | (80) |
| Net operating expenses | <u>(15,287)</u> | <u>(12,063)</u> | <u>(7,175)</u> | <u>(80)</u> |
| Other operating income | — | 3,195 | — | — |
| Operating (loss)/profit | <u>(11,395)</u> | <u>(2,205)</u> | <u>4,514</u> | <u>(78)</u> |

5.3. Exceptional items

The 1997 results include the following exceptional charges which principally arose from the breakdown in computer systems and management controls in the first part of 1997:

| | <i>£'000</i> |
|---|--------------|
| Included within cost of sales | |
| - Stock losses and stock provisions | <u>3,573</u> |
| Included within distribution costs | |
| - Point of sale material relating to discontinued product lines | <u>300</u> |
| Included within administrative expenses | |
| - Bad debt provisions | 441 |
| - Computer development costs | 558 |
| - Consultancy, accounting costs and other professional fees | 842 |
| - Relocation, reorganisation and redundancy costs | <u>1,605</u> |
| | <u>3,446</u> |

The 1996 results include the following figures related to the fire in Newcastle in January 1996 and associated insurance claims:

| | £'000 |
|---|--------------|
| Included within cost of sales | |
| — Loss on destruction of stock which was not covered by insurance | 460 |
| — Redundancy costs | 156 |
| | <u>616</u> |
| Included within administrative expenses | |
| — Loss assessors' and consultancy fees | 192 |
| — Redundancy costs | 138 |
| | <u>330</u> |
| Included within selling and distribution | |
| — Redundancy costs | 75 |
| Included within other operating income | |
| — Proceeds from insurance policies for loss of profits and increased cost of working | <u>3,195</u> |
| This income represents a partial recovery of costs included in cost of sales and net operating expenses | |
| Included as exceptional profit on disposal of fixed assets | |
| — Gain on destruction of manufacturing plant and machinery | <u>586</u> |

In addition, administrative expenses include exceptional doubtful debt provisions amounting to £900,000.

5.4 Directors' emoluments

| | Year ended 31st December | | |
|---|--------------------------|------------|------------|
| | 1997 | 1996 | 1995 |
| | £'000 | £'000 | £'000 |
| Fees | 102 | 66 | 58 |
| Emoluments for management services (including allowances) | 452 | 519 | 465 |
| Pension contributions | 27 | 47 | 39 |
| Compensation for loss of office | 133 | 144 | — |
| | <u>714</u> | <u>776</u> | <u>562</u> |

Fees and other emoluments include amounts paid to:

| | 1997 | | 1996 | | 1995 | |
|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|
| | Chairman | Highest paid Director | Chairman | Highest paid Director | Chairman | Highest paid Director |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fees and emoluments | 36 | 148 | 27 | 177 | 26 | 171 |
| Pension contributions | — | 9 | — | 14 | — | 13 |
| | <u>36</u> | <u>157</u> | <u>27</u> | <u>191</u> | <u>26</u> | <u>184</u> |

5.5 Employee information

The average monthly number of employees (including Executive Directors) employed by the Group was:

| | Year ended 31st December | | |
|--------------------------|--------------------------|------------|------------|
| | 1997 | 1996 | 1995 |
| | Number | Number | Number |
| By activity | | | |
| Production/manufacturing | 83 | 125 | 115 |
| Warehouse | 2 | 14 | 14 |
| Selling and management | 61 | 63 | 75 |
| Administration | 43 | 55 | 85 |
| | <u>189</u> | <u>257</u> | <u>289</u> |

| | <i>Year ended 31st December</i> | | |
|-----------------------|---------------------------------|--------------|--------------|
| | <i>1997</i> | <i>1996</i> | <i>1995</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Staff costs | | | |
| Wages and salaries | 3,642 | 4,352 | 3,377 |
| Social security costs | 350 | 377 | 331 |
| Other pension costs | 121 | 122 | 120 |
| | <u>4,113</u> | <u>4,851</u> | <u>3,828</u> |

5.6 Net interest payable

| | <i>Year ended 31st December</i> | | |
|--|---------------------------------|--------------|--------------|
| | <i>1997</i> | <i>1996</i> | <i>1995</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Interest receivable | <u>32</u> | <u>37</u> | <u>73</u> |
| Interest payable and similar charges: | | | |
| On bank loans, overdrafts and advances from factor | (139) | (590) | (493) |
| On HP/finance leases | <u>(2)</u> | <u>(1)</u> | <u>—</u> |
| | <u>(141)</u> | <u>(592)</u> | <u>(494)</u> |
| Net interest payable | <u>(109)</u> | <u>(555)</u> | <u>(421)</u> |

5.7 (Loss)/profit on ordinary activities before taxation

| | <i>Year ended 31st December</i> | | |
|--|---------------------------------|--------------|--------------|
| | <i>1997</i> | <i>1996</i> | <i>1995</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Loss on ordinary activities before taxation is stated after crediting: | | | |
| Profit on disposal of tangible fixed assets | <u>—</u> | <u>586</u> | <u>—</u> |
| And after charging: | | | |
| Depreciation charge for the year: | | | |
| Tangible owned fixed assets | 368 | 393 | 313 |
| Tangible fixed assets held under finance leases | 8 | 5 | 2 |
| Loss on disposal of tangible fixed assets | 438 | — | 35 |
| Auditor's remuneration (including expenses) for: | | | |
| — Audit | 110 | 140 | 67 |
| — Other services | — | 76 | 11 |
| Hire of plant and machinery - operating leases | 29 | 61 | 36 |
| Hire of other assets - operating leases | <u>454</u> | <u>324</u> | <u>249</u> |

Auditors' remuneration for other services principally relates to taxation advice and accounting assistance. In addition to the amounts disclosed.

5.8 Tax on ordinary activities

| | <i>Year ended 31st December</i> | | |
|---|---------------------------------|--------------|--------------|
| | <i>1997</i> | <i>1996</i> | <i>1995</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| United Kingdom corporation tax at 31.5% (1996: 33%, 1995: 33%): | | | |
| Current | (300) | (70) | 1,284 |
| Deferred | — | (7) | 3 |
| Irrecoverable ACT written off | 29 | — | — |
| Over provision in respect of prior years: | | | |
| Current | <u>(543)</u> | <u>(75)</u> | <u>(31)</u> |
| | <u>(814)</u> | <u>(152)</u> | <u>1,256</u> |

5.9 Dividends

No dividend has been paid or is proposed in respect of the year to 31 December 1997. In 1996 an interim dividend of £112,000 was paid representing 0.25p per share (1995: 0.25p). No final dividend for 1996 was paid (1995: 0.25p).

5.10 Loss per ordinary share

The calculation of loss per share on the net basis is based on the loss on ordinary activities after taxation of £10,690,000 (1996: loss of £2,022,000, 1995: profit £2,759,000) and on 89,596,203 ordinary shares (1996: 86,864,621 as restated for the rights issue, 1995: 80,717,540), being the weighted average number of ordinary shares in issue.

5.11 Tangible fixed assets

| | <i>Short leasehold land and buildings £'000</i> | <i>Motor vehicles, plant and machinery £'000</i> | <i>Other Fixtures and fittings £'000</i> | <i>Total £'000</i> |
|------------------------------|---|--|--|------------------------|
| Cost or valuation | | | | |
| At 1st January 1996 | 82 | 1,418 | 682 | 2,182 |
| Additions | — | 227 | 333 | 560 |
| Disposals | — | (837) | (80) | 917 |
| Reclassification | — | 72 | (72) | — |
| At 31st December 1996 | 82 | 880 | 863 | 1,825 |
| Additions | — | 138 | 403 | 541 |
| Disposals | — | (83) | (619) | (702) |
| Reclassification | 66 | — | (66) | — |
| At 31st December 1997 | 148 | 935 | 581 | 1,664 |
| Depreciation | | | | |
| At 1st January 1996 | 43 | 327 | 224 | 594 |
| Charge for the year | 5 | 336 | 57 | 398 |
| Disposals | — | (243) | (18) | 261 |
| Reclassification | — | 51 | (51) | — |
| At 31st December 1996 | 48 | 471 | 212 | 731 |
| Charge for year | 8 | 141 | 227 | 376 |
| Disposals | — | (42) | — | (42) |
| Reclassification | 35 | — | (35) | — |
| At 31st December 1997 | 91 | 570 | 404 | 1,065 |
| Net book value | | | | |
| At 31st December 1997 | 57 | 365 | 177 | 599 |
| At 31st December 1996 | 34 | 409 | 651 | 1,094 |

The book amounts for motor vehicles include the following amounts in respect of assets held under finance leases: net book value £21,000 (1996: £39,000, 1995: £6,000). The depreciation charge in respect of these assets was £8,000 (1996: £5,000, 1995: £2,000).

5.12 Investments

The Company is a holding company and its principal subsidiary undertakings are set out below.

| <i>Name of undertaking</i> | <i>Principal activity</i> | <i>Description of shares held</i> |
|--|---|---------------------------------------|
| Ronson International Limited | Import and distribution of lighters and gift products | Ordinary 5p shares |
| Ronson International Jewellery Limited | Distribution of jewellery | Ordinary £1 shares |
| Premier Pressings (UK) Limited | Manufacture of lighters | Ordinary £1 shares |
| BCL (Export) Limited | Distribution of cosmetic products | Ordinary 10p shares |

All the above companies are incorporated in Great Britain, operate exclusively in the United Kingdom and all are wholly owned subsidiaries included in the financial statements. The shares in BCL (Export) Limited, Premier Pressings (UK) Limited and Ronson International Limited are owned by Ronson plc. The shares in Ronson International Jewellery Limited are owned by Ronson International Limited.

5.13 Stocks

Group

| | <i>As at 31st December</i> | | |
|-------------------------------------|----------------------------|---------------|--------------|
| | <i>1997</i> | <i>1996</i> | <i>1995</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Raw materials and consumables | 174 | 875 | 1,263 |
| Work in progress | 91 | — | — |
| Finished goods and goods for resale | 5,075 | 5,189 | 4,500 |
| | <u>5,340</u> | <u>16,064</u> | <u>5,763</u> |

5.14 Debtors

| | <i>As at 31st December</i> | | |
|---|----------------------------|--------------|---------------|
| | <i>1997</i> | <i>1996</i> | <i>1995</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Amounts falling due within one year: | | | |
| Trade debtors | 3,083 | 6,758 | 9,266 |
| Corporation tax recoverable | 913 | 69 | — |
| ACT recoverable | 167 | 196 | — |
| Insurance fire debtor | — | 1,100 | — |
| Other debtors | 403 | 714 | 753 |
| Prepayments and accrued income | 186 | 531 | 855 |
| | <u>4,752</u> | <u>9,368</u> | <u>11,014</u> |

The Group has entered into a debt factoring agreement for certain of its receivables with Lombard NatWest Factors Limited. The terms of the agreement are such that the Group may receive up to 75% of the factored debts. Monthly interest at 1.5% above base rate is charged on a daily basis on any amounts drawn down.

As at 31st December 1997, £1,360,000 had been drawn down under the above agreement (1996: £nil, 1995: £nil).

Administration and interest charges relating to the above agreement amounted to £162,000 in the year (1996: £195,000, 1995: £nil).

5.15 Creditors: amounts falling due within one year

| | <i>1997</i> | <i>1996</i> | <i>1995</i> |
|------------------------------------|---------------|--------------|---------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Bank overdrafts (secured) | 1,491 | 1 | 851 |
| Current portion of bank loan | — | — | 2,000 |
| Advance from factor (secured) | 1,360 | — | — |
| Obligations under finance leases | 26 | 17 | 5 |
| Trade creditors | 3,943 | 4,615 | 4,578 |
| Bills of exchange payable | — | 80 | 414 |
| Corporation tax | — | — | 935 |
| Advance corporation tax | — | — | 140 |
| Other taxation and social security | 105 | 298 | 232 |
| Other creditors | 800 | 477 | 702 |
| Accruals and deferred income | 3,431 | 1,850 | 414 |
| Dividends payable | — | — | 560 |
| | <u>11,156</u> | <u>7,338</u> | <u>10,831</u> |

The bank overdrafts are secured by fixed and floating charges over the Group's assets.

5.16 Creditors: amounts falling due after more than one year

| | 1997 £'000 | 1996 £'000 | 1995 £'000 |
|--|---------------|---------------|---------------|
| Bank loans repayable by instalments: | | | |
| between 1 and 2 years | — | — | 1,000 |
| between 2 and 5 years | — | — | 3,000 |
| after 5 years | — | — | 1,000 |
| | <u>—</u> | <u>—</u> | <u>5,000</u> |
| Obligations under finance leases repayable by instalments: | | | |
| Between 1 and 2 years | — | 19 | — |
| Other creditors repayable by instalments: | | | |
| Between 1 and 2 years | 150 | 150 | 150 |
| Between 2 and 5 years | 266 | 346 | 450 |
| After 5 years | — | — | 46 |
| | <u>416</u> | <u>496</u> | <u>646</u> |
| | <u>416</u> | <u>515</u> | <u>5,646</u> |

5.17 Provisions for liabilities and charges

| | Acquisition provisions £'000 | Deferred taxation £'000 | Total £'000 |
|--------------------------------|------------------------------------|-------------------------------|----------------|
| At 1st January 1996 | 435 | 72 | 507 |
| Movement | (281) | (7) | (288) |
| At 31st December 1996 and 1997 | <u>154</u> | <u>65</u> | <u>219</u> |

Deferred taxation

The provision for deferred taxation totalling £65,000 at 31st December 1997 (1996: £65,000, 1995: £72,000) reflects the full potential liability in respect of excess tax allowances over depreciation.

5.18 Called up share capital

| | 1997 £'000 | 1996 £'000 | 1995 £'000 |
|---|---------------|---------------|---------------|
| Authorised | | | |
| 136,984,020 (1995: 50,490,000) ordinary shares of 5p each | <u>6,849</u> | <u>6,849</u> | <u>2,524</u> |
| Allotted, called up and fully paid | | | |
| 89,596,203 (1995: 44,798,102) ordinary shares of 5p each | <u>4,480</u> | <u>4,480</u> | <u>2,240</u> |

Allotted, called up and fully paid

| | Ordinary shares of 5p each | Premium on issue arising in the year £'000 |
|--|----------------------------------|---|
| At 1st January 1995 and 1996 | 44,798,102 | — |
| Issue of shares in 1996 | | |
| - rights issue | 40,318,291 | 8,064 |
| - subscription | 4,479,810 | 896 |
| At 1st January 1997 and 31st December 1997 | <u>89,596,203</u> | <u>8,960</u> |

Share options

The Company operates an executive share option scheme which has been approved by the Inland Revenue in accordance with the Finance Act 1984 and the Income and Corporation Tax Act 1988 as appropriate.

No options have been granted which remain exercisable.

5.19 Share premium account and reserves

| | <i>Share premium account £'000</i> | <i>Goodwill reserve £'000</i> | <i>Profit and loss account £'000</i> |
|----------------------------|--|---------------------------------------|--|
| At 1st January 1997 | 13,844 | (8,968) | 234 |
| Retained loss for the year | — | — | (10,690) |
| At 31st December 1997 | <u>13,844</u> | <u>(8,968)</u> | <u>(10,456)</u> |

5.20 Goodwill

The cumulative amount of goodwill resulting from acquisitions which has been written off to reserves amounts to £29,978,000 (1996: £29,978,000, 1995: £29,978,000).

5.21 Reconciliation of movements in shareholders' funds

| | <i>1997 £'000</i> | <i>1996 £'000</i> | <i>1995 £'000</i> |
|--|-----------------------|-----------------------|-----------------------|
| Loss for the financial year | (10,690) | (2,022) | 2,759 |
| Dividends | — | (112) | (672) |
| | <u>(10,690)</u> | <u>(2,134)</u> | <u>2,087</u> |
| Issue of shares, net of expenses | — | 10,343 | 4,726 |
| Goodwill written off | — | — | (9,846) |
| Net (reduction in)/addition to shareholders' funds | <u>(10,690)</u> | <u>8,209</u> | <u>(2,673)</u> |
| Opening shareholders' funds | 9,590 | 1,381 | 4,054 |
| Closing shareholders' funds | <u>(1,100)</u> | <u>9,590</u> | <u>1,381</u> |

5.22 Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities

| | <i>1997 £'000</i> | <i>1996 £'000</i> | <i>1995 £'000</i> |
|--|-----------------------|-----------------------|-----------------------|
| Operating loss | (11,395) | (2,205) | 4,514 |
| Depreciation of tangible fixed assets | 376 | 398 | 315 |
| Loss on disposal of tangible fixed assets | 438 | 6 | 35 |
| Decrease/(increase) in stocks | 724 | (301) | (2,108) |
| Decrease/(increase) in debtors | 5,431 | 1,771 | (5,540) |
| (Decrease)/increase in creditors | 870 | 823 | 600 |
| Decrease/(increase) in provisions | — | (281) | (433) |
| Net cash (outflow)/inflow from continuing operating activities | <u>(3,556)</u> | <u>211</u> | <u>(2,617)</u> |

5.23 Reconciliation of net cash flow to movement in net debt

| | <i>1997 £'000</i> | <i>1996 £'000</i> | <i>1995 £'000</i> |
|--|-----------------------|-----------------------|-----------------------|
| (Decrease)/increase in cash in the year | (2,626) | 1,986 | (2,338) |
| Cash (inflow)/outflow from (increase)/decrease in debt | <u>(1,360)</u> | <u>7,000</u> | <u>(7,000)</u> |
| Change in net (debt)/cash resulting from cashflows | <u>(3,986)</u> | <u>8,986</u> | <u>(9,338)</u> |
| Other non-cash items: | | | |
| New finance leases | 10 | (31) | (2) |
| Movement in net (debt)/funds in the period | <u>(3,976)</u> | <u>8,955</u> | <u>(9,340)</u> |
| Net funds/(debt) at 1st January | 1,099 | (7,856) | 1,484 |
| Net (debt)/funds at 31st December | <u>(2,877)</u> | <u>1,099</u> | <u>(7,856)</u> |

5.24 Analysis of net (debt)/funds

| | <i>At 1st January 1997 £'000</i> | <i>Cash flow £'000</i> | <i>Other non cash changes £'000</i> | <i>At 31st December 1997 £'000</i> |
|--------------------------|--|--------------------------------|---|--|
| Cash in hand and at bank | 1,136 | (1,136) | — | — |
| Overdrafts | (1) | (1,490) | — | (1,491) |
| | <u>1,135</u> | <u>(2,626)</u> | <u>—</u> | <u>(1,491)</u> |
| Debt due within 1 year | — | (1,360) | — | (1,360) |
| Finance leases | (36) | 10 | — | (26) |
| | <u>(36)</u> | <u>(1,350)</u> | <u>—</u> | <u>(1,386)</u> |
| Net funds/(debt) | <u>1,099</u> | <u>(3,976)</u> | <u>—</u> | <u>(2,877)</u> |

5.25 Capital commitments

| | <i>1997 £'000</i> | <i>1996 £'000</i> | <i>1995 £'000</i> |
|---------------------------------|-----------------------|-----------------------|-----------------------|
| Future capital expenditure | | | |
| Contracted but not provided for | <u>—</u> | <u>633</u> | <u>135</u> |

5.26 Contingent liabilities

Group companies have provided guarantees to HM Customs & Excise totalling £560,000 (1996: £560,000, 1995: £300,000).

The Company has provided unlimited guarantees for the borrowing of its subsidiary companies. As at 31st December 1997, subsidiary companies had net borrowings of £7,995,000 which were subject to this guarantee (1996: £3,920,000, 1995: £791,000).

5.27 Financial commitments

The Group had annual commitments under non-cancellable operating leases as follows:

| | <i>As at 31st December</i> | | | | | |
|---|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <i>Land and buildings</i> | | | <i>Other</i> | | |
| | <i>1997 £'000</i> | <i>1996 £'000</i> | <i>1995 £'000</i> | <i>1997 £'000</i> | <i>1996 £'000</i> | <i>1995 £'000</i> |
| Expiring within one year | — | — | — | — | 3 | 5 |
| Expiring between one and five years inclusive | 340 | 331 | 103 | 7 | 2 | 18 |
| Expiring over five years | 115 | 42 | 190 | 60 | — | 16 |
| | <u>455</u> | <u>373</u> | <u>293</u> | <u>67</u> | <u>5</u> | <u>39</u> |

5.28 Related party transactions

Included in other debtors at 31st December 1997 is £1,875 (1996: £4,125, 1995: £Nil) advanced to the Company Secretary as a loan to acquire a car. The maximum advanced was £4,500 and the loan is interest free repayable within two years or upon termination of her employment.

One of the Company's former directors Lars Rydstrom, who resigned on 7 July 1998, had a beneficial interest in two companies which traded with the Group in 1996. In that year purchases of £306,212 and sales of £17,011 were made from and to these companies. At 31st December 1996, £5,909 was included in trade creditors and £6,916 was included in trade debtors in respect of these companies. All dealings with these companies were conducted on an arms' length basis. There were no such transactions in 1997.

PART IV

Unaudited Group Interim Results for the period from 1 January 1998 to 4 July 1998

The following is the full text of an announcement made today:

“Chairman’s Statement

Ronson’s trading in the first half of 1998 has continued to be impacted by the uncertainties experienced in the second half of 1997. Turnover in the period was £10.4 million, 22 per cent. down on the same period in 1997. The gross profit ratio has improved in the period compared to the first half of the prior year but further provisions for excess and slow moving stocks, amounting to £0.6 million, have been required. Operating expenses at £5.1 million have been reduced by £2.2 million over the same period in the prior year. As a result of the above factors the operating loss for the period was £3.2 million compared to £5.2 million in the same period of the prior year.

Net interest costs in the period amounted to £149,000 compared to £21,000 in the first half of 1997. The increase was the result of the high borrowings from the Company’s bankers and debt factors during the period.

In the light of these results the directors do not intend to declare an interim dividend.

Divisional Turnover

A table of divisional turnover is set out below at Note 1.

Worldwide retail turnover was down overall in the period by £1.7 million (26 per cent.), compared to the first half of 1997. Sales performance in the Retail division in the UK in the first half has been encouraging. Sales of both giftware and smokers’ requisites were ahead of the same period in the prior year. Overall UK sales were strongly ahead after taking account of sales of the Chirton air freshener range which amounted to £400,000 in the first half of 1997. The Chirton range was discontinued for sale in the UK in mid 1997.

International retail sales in the Retail division in the first half were down significantly on the prior year. In the gift product area a new sales team has been concentrating on rebuilding relationships with distributors based on the core lighter product range. Much work remains to be done. International Chirton sales have been severely impacted by reduced orders from the important Russian market.

Duty Free division sales are down in comparison with the same period in the prior year by £1.9 million (35 per cent.). This reflects a loss of product listings and also reduced sales from routes serving the Asian market. Home Shopping turnover increased in comparison with the same period in 1997 by £285,000 (22 per cent.). This is mainly a result of the successful introduction of new marketing strategies.

Current Trading

The uncertainties about the Company’s future have continued to impact trading in the second half. The directors believe that the implementation of the refinancing proposals outlined in the circular to shareholders should end this uncertainty and help to provide a secure base for rebuilding the Group in 1999.

The directors would like to take this opportunity to thank the staff for their support during a particularly difficult period for the Group.

Victor K. Kiam
Chairman

Consolidated Unaudited Profit and Loss Account for the 6 months ended 4 July 1998

| | <i>6 months ended 4 July 1998 unaudited £'000</i> | <i>6 months ended 5 July 1997 unaudited £'000</i> | <i>Year ended 31 December 1997 audited £'000</i> |
|---|---|---|--|
| Turnover (Note 1) | 10,376 | 13,369 | 26,271 |
| Cost of sales | <u>(8,463)</u> | <u>(11,257)</u> | <u>(22,379)</u> |
| Gross profit | 1,913 | 2,112 | 3,892 |
| Net operating expenses | <u>(5,114)</u> | <u>(7,356)</u> | <u>(15,287)</u> |
| Operating loss | (3,201) | (5,244) | (11,395) |
| Net interest payable | <u>(149)</u> | <u>(21)</u> | <u>(109)</u> |
| Loss on ordinary activities before taxation | (3,350) | (5,265) | (11,504) |
| Tax on ordinary activities (Note 4) | <u>—</u> | <u>—</u> | <u>814</u> |
| Retained loss for the period | <u><u>(3,350)</u></u> | <u><u>(5,265)</u></u> | <u><u>(10,690)</u></u> |
| Loss per ordinary share (Note 6) | (3.74p) | (5.88p) | (11.93p) |

Consolidated Unaudited Balance Sheet as at 4 July 1998

| | <i>At 4 July 1998 unaudited £'000</i> | <i>At 5 July 1997 unaudited £'000</i> | <i>At 31 December 1997 audited £'000</i> |
|--|---|---|--|
| Fixed assets | | | |
| Tangible assets | 727 | 889 | 599 |
| Current assets | | | |
| Stocks | 3,636 | 5,796 | 5,340 |
| Debtors | 3,756 | 6,481 | 4,752 |
| Cash | — | 20 | — |
| | 7,392 | 12,297 | 10,092 |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | | | |
| Bank borrowings | (3,926) | (1,102) | (1,491) |
| Other creditors | (8,083) | (7,088) | (9,665) |
| | (12,009) | (8,190) | (11,156) |
| Net current (liabilities)/assets | (4,617) | 4,107 | (1,064) |
| Creditors: amounts falling due after more than one year | (341) | (452) | (416) |
| Provisions for liabilities and charges | (219) | (219) | (219) |
| | (560) | (671) | (635) |
| Net (liabilities)/assets | (4,450) | 4,325 | (1,100) |
| Capital and reserves | | | |
| Called up share capital and share premium account | 18,324 | 18,324 | 18,324 |
| Profit and loss account | (22,774) | (13,999) | (19,424) |
| Equity shareholders' funds | (4,450) | 4,325 | (1,100) |

Notes:

1. Turnover by Division

| | <i>6 months ended 4 July 1998 unaudited £'000</i> | <i>6 months ended 5 July 1997 unaudited £'000</i> |
|-----------------|---|---|
| Retail | | |
| - UK | 1,561 | 1,614 |
| - International | 3,214 | 4,853 |
| Total Retail | 4,775 | 6,467 |
| Duty Free | 2,973 | 4,905 |
| Home Shopping | 1,570 | 1,285 |
| Other | 1,058 | 712 |
| | 10,376 | 13,369 |

- The financial information set out above does not comprise full accounts for the purposes of section 240 of the Companies Act 1985 ("the Act").
- The financial information for the six months ended 4 July 1998 and 5 July 1997 has not been audited and has been prepared in accordance with applicable accounting standards. The accounting policies adopted have been consistently applied and are set out in the statutory accounts of Ronson plc for the year to 31 December 1997. The financial information for the year ended 31 December 1997 has been extracted from the 1997 statutory accounts of Ronson plc which have been posted to shareholders but not yet filed with the Registrar of Companies and on which the Auditors' opinion was qualified.
- Following the loss recorded in the first half of the year it is anticipated that no corporation tax will be payable in respect of the year to 31 December 1998.
- The directors are not declaring an interim dividend in respect of the period to 4 July 1998. No dividend was paid in respect of the year to 31 December 1997.
- Loss per share is based on 89,596,203 shares being the number of 5p ordinary shares in issue during the period and a loss after taxation of £3,350,000 (six months ended 5 July 1997 £5,265,000 loss, and year ended 31 December 1997 £10,690,000 loss)."

PART V

PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP

The following unaudited *pro forma* statement of net assets of the Group, which shows the effects of the Proposals, 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 Group. It is prepared in accordance with the notes set out below.

| <i>Notes</i> | <i>4 July 1998 unaudited £'000 (i)</i> | <i>Adjustment £'000 (ii)</i> | <i>Pro forma as adjusted £'000 (iii)</i> |
|---|--|--------------------------------------|--|
| Fixed assets | | | |
| Tangible | 727 | — | 727 |
| Current assets | | | |
| Stocks | 3,636 | — | 3,636 |
| Debtors | 3,756 | — | 3,756 |
| Cash at bank and in hand | — | 4,074 | 4,074 |
| | 7,392 | 4,074 | 11,466 |
| Creditors: | | | |
| amounts falling due within one year | (12,009) | 3,926 | (8,083) |
| Net current (liabilities)/assets | (4,617) | 8,000 | 3,383 |
| | (3,890) | 8,000 | 4,110 |
| Total assets less current liabilities | | | |
| Creditors: | | | |
| amounts falling due after more than one year | (341) | — | (341) |
| Provisions for liabilities and charges | (219) | — | (219) |
| Net (liabilities)/assets | (4,450) | 8,000 | 3,550 |

Notes:

- (i) The figures as at 4 July 1998 are extracted from the consolidated balance sheet of the Group as set out in its unaudited interim results for the period from 1 January 1998 to 4 July 1998, as set out in Part IV of this document.
- (ii) An adjustment has been made to reflect the receipt by the Group of the net proceeds in connection with the Proposals amounting to approximately £8.0 million (after deducting expenses of £0.5 million excluding VAT).
- (iii) No adjustment has been made to reflect any trading or other transactions in the period since 4 July 1998 in respect of the Group, other than as set out above.



BAKER TILLY

Chartered Accountants

2 Bloomsbury Street

London WC1B 3ST

The Directors
Ronson plc
Ronson House
Broadfield Park
Brighton Road
Crawley
West Sussex RH11 9RT

and

The Directors
Charles Stanley & Company Limited
25 Luke Street
London
EC2A 4AR

26 August 1998

Dear Sirs

Ronson plc

We have reviewed the calculations, bases of preparation and adjustments for the illustrative unaudited pro forma statement of net assets of Ronson plc and its subsidiaries (and explanatory notes) for which the directors of Ronson plc are solely responsible, set out under the heading "Pro Forma Statement of Net Assets of the Group" in Part V of the prospectus dated 26 August 1998 (the "Prospectus"). The pro forma statement of net assets is based on Ronson plc's unaudited consolidated balance sheet as at 4 July 1998 set out in Part IV of the Prospectus and incorporates the effect of the receipt of the net proceeds of the Proposals.

In our opinion the pro forma statement of net assets has been properly compiled on the bases set out in Part V of the Prospectus and such bases are consistent with the accounting policies of Ronson plc. Further, the adjustment set out in Part V of the Prospectus is 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 Limited.

Yours faithfully

Baker Tilly
Chartered Accountants and Registered Auditors

Offices at: Birmingham, Bradford, Bromley, Crawley, Guildford,
London, Manchester, Milton Keynes, Watford, Yeovil

A list of partners' names is available at the above address

Baker Tilly is registered to carry on audit work and authorised to
carry on Investment Business by the Institute of Chartered
Accountants in England and Wales.



An independent member of Summit International
Associates, Inc.

PART VI

INFORMATION ON CONCERT PARTIES

Albion

Albion is an investment company registered in the British Virgin Islands and generally invests in smaller publicly quoted companies in the United Kingdom with a market capitalisation of under £30 million.

Albion's investment adviser is Berkeley Capital Advisors, a US based private advisory firm. Berkeley Capital Advisors is also engaged in real estate finance and advisory services in the United States.

Albion's registered address is: Tropic Isle Building, PO Box 964, Wickhams Cay, Road Town, Tortola, British Virgin Islands.

Equity funding is being provided by Albion's shareholders to Albion in order to enable Albion to fulfill its financial obligations under the Placing and Open Offer.

Farzad Rastegar beneficially owns the whole of the voting share capital of Albion. In addition, there are a number of passive investors holding non-voting shares in Albion.

Farzad Rastegar is a director of Berkeley Capital Advisors, investment advisers to Albion. In the UK, he is also a non-executive director of Apax Partners & Co. Corporate Finance Limited and Executive Chairman of Sunleigh plc.

The directors of Albion are TMF Management (BVI) Limited, a BVI registration agent, and R Bucheker.

Stancroft

Stancroft is an investment company registered in England (Company registration Number 437543) whose principal activity is holding and managing investments. As at 31 December 1997, Stancroft had a net asset value in excess of £31 million.

Stancroft's registered office is Bride House, 20 Bride Lane, London, EC4Y 8DX.

The principal shareholder in Stancroft is N W Berry. Stancroft is fulfilling its obligations under the Placing and Open Offer from its own resources.

The Directors of Stancroft are N W Berry (Chairman), M F Heathcoat Amory, T C Pilkington, Drs I Klausner and E G Abel.

Nicholas Berry is a non-executive director of several private and public companies, including publishing concerns European Magazines Limited and Blackwell Limited, Mintel International Group Limited (one of a number of market research organisations with which Mr. Berry holds such directorship), Ledburn Properties Limited, Prospect Trust plc and several other investment companies. Mr. Berry is also a non-executive director of Atlantic Telecom Group PLC, to whose Board he was appointed in 19 January 1995, which specialises in radio telephony and cable television.

Victor Kiam

Victor Kiam is a US citizen who has an extensive knowledge of consumer goods and marketing.

Victor Kiam is funding his financial obligations under the Firm Placing from his own personal resources.

Victor Kiam presently serves as Chairman of Remington Products Company, LLC and he is also Chairman of several private companies, including the Franzus Company, the leading travel appliance and accessory company in the United States, Cirrus Air Technologies, the marketer of Earplanes, a device that eradicates painful ear pressure for travellers who fly, and Lady Remington Jewellery, a party plan jewellery distributor. He is also Chairman of Citadel Technologies, a software provider of computer security and is a Director of News Communications, Inc.

Concert Party

Albion and Stancroft have independently of each other been long standing shareholders of the Company.

During the last quarter of 1997 Albion and Stancroft "came together" to express their collective dissatisfaction with the Company's performance and its board of directors.

The then Chairman of the Company approached Albion in the later part of 1997 with a view to obtaining Albion's support as the largest shareholder for any deal which would support the future of the Company.

Albion spoke to other major shareholders to map a course of action which led to the proposals for a rescue refinancing. As part of this process Albion formed a closer relationship with Stancroft and this culminated in the proposals which were announced on the 6th March this year.

Victor Kiam had not previously been connected with either the Company, Stancroft or Albion. He approached Albion in the latter part of 1997 expressing an interest in becoming involved in the Company.

As part of the proposals for the refinancing of the Company, Albion then contacted Victor Kiam and subsequently in March 1998 after consultation with the then Ronson board, Victor Kiam was appointed as non executive chairman in March 1998 and became executive Chairman and Chief Marketing Officer on the 7th July 1998 following the resignation of two of the Company's executive directors.

Albion, Stancroft and Victor Kiam formulated a strategy firstly to refinance the Company and secondly to drive the business forward. Whilst there was no formal agreement to this effect it was agreed that, to ensure the strategy would succeed, they had to take control of the business.

Dealings by the Concert Parties in the Company

The following table sets out all the dealings in the existing Ordinary Shares by members of the Concert Party in the twelve months prior to the date of this document.

| <i>Beneficial Holder</i> | <i>Date</i> | <i>Purchases</i> | <i>Price (p) per share</i> | <i>Resultant Shareholding</i> | |
|--------------------------|---------------------|------------------|----------------------------|-------------------------------|-------|
| Stancroft | 29th September 1997 | 100,000 | 15p | 3,770,000 | 4.21% |
| | 10th October 1997 | 100,000 | 13p | | |
| | 10th November 1997 | 100,000 | 12p | | |

As at the date of this document Albion holds 15,828,279 Ordinary Shares, Stancroft owns 3,770,000 Ordinary Shares (which includes 300,000 Ordinary Shares beneficially owned by N W Berry) and Victor Kiam does not hold any existing Ordinary Shares;

Albion's holding is registered in the name of a nominee.

A director of Stancroft, Drs I Klausner, sold 50,000 Ordinary Shares on each of 13th February 1998 and 17th March 1998 at 6.25p and 9p respectively and Mrs H Klausner holds 50,000 Ordinary Shares acquired by a transfer from her husband on 13th February 1998 at a price of 6.25p.

Potential shareholdings of the Concert Party

The following table sets out the effects on the holdings of the Concert Party after the completion of the Proposals.

| | <i>Albion</i> | <i>Stancroft</i> | <i>Victor Kiam</i> | <i>Concert Parties</i> |
|---|---------------|------------------|--------------------|------------------------|
| Holding of New Ordinary Shares | 228,098,464 | 194,792,500 | 100,000,000 | 522,890,964 |
| Percentage of voting rights ¹ | 21.41% | 18.29% | 9.39% | 49.09% |
| Holding of Convertible Shares ¹ | 100,253,874 | 25,063,468 | — | 125,317,342 |
| Percentage of voting rights ¹ | 9.41% | 2.35% | — | 11.76% |
| Subtotal percentage of voting rights | 30.82% | 20.64% | 9.39% | 60.85% |
| Holding of Warrants ² | — | — | 93,988,006 | 93,988,006 |
| Percentage of voting rights ² | — | — | — | — |
| Holding of New Ordinary Shares assuming full exercise of Warrants | 328,352,338 | 219,855,968 | 193,988,006 | 742,196,312 |
| Percentage of voting rights | 28.33% | 18.97% | 16.73% | 64.03% |

Notes

¹ The Convertible Shares carry the same voting rights as the New Ordinary Shares

² The Warrants are not entitled to vote at general meetings

³ This table takes no account of any New Ordinary Shares arising upon the exercise of options granted under the 1998 Share Option Scheme

In order to comply with the Listing Rules, Albion and Farzad Rastegar have entered into a Relationship Agreement, further details of which are set out in Part X of this document.

Neither the directors of Albion, Stancroft, Victor Kiam nor Farzad Rastegar owns or controls any shareholdings in the Company, save as disclosed above or elsewhere in this document.

Save as disclosed above, no document, agreement, arrangement or understanding exists between the Concert Party and any of the Directors, recent directors, shareholders or recent shareholders of the Company.

PART VII

PARTICULARS OF THE WARRANTS

The Warrants will be constituted by and will be issued subject to and upon the conditions and with the benefit of rights contained in a deed poll (the "Warrant Instrument") of Ronson plc to be executed following the passing of Resolution 3 at the EGM. The principal terms and conditions of the Warrants are set out below.

A draft of the deed poll (subject to modifications approved by the Board) is available for inspection as referred to in Part X. Holders of Warrants will be bound by all the terms and conditions set out in the Warrant Instrument.

1. Subscription rights

- (a) A registered holder for the time being (a "holder") of Warrants shall have rights ("subscription rights") to subscribe for New Ordinary Shares in cash as follows:
- (i) a holder of Ronson 1998 Warrants shall have rights to subscribe for up to 23,497,001 New Ordinary Shares at any time from 18 September 1998 until 18 September 2003 inclusive at a price of 1p per New Ordinary Share ("the subscription price"), payable in full on subscription;
 - (ii) a holder of Ronson 1999 Warrants shall have rights to subscribe for up to 23,497,001 New Ordinary Shares at any time from 1 July 1999 until 30 April 2003 inclusive at the subscription price, payable in full on subscription, subject to the satisfaction of the conditions set out in paragraph (b)(i) below;
 - (iii) a holder of Ronson 2000 Warrants shall have rights to subscribe for up to 18,797,602 New Ordinary Shares at any time from 1 July 2000 until 30 April 2003 inclusive at the subscription price, payable in full on subscription, subject to the satisfaction of the conditions set out in paragraph (b)(ii) below;
 - (iv) a holder of Ronson 2001 Warrants shall have rights to subscribe for up to 14,098,201 New Ordinary Shares at any time from 1 July 2001 until 30 April 2003 inclusive at the subscription price, payable in full on subscription, subject to the satisfaction of the conditions set out in paragraph (b)(iii) below;
 - (v) a holder of Ronson 2002 Warrants shall have rights to subscribe for up to 14,098,201 New Ordinary Shares at any time from 1 July 2002 until 30 April 2003 inclusive at the subscription price, payable in full on subscription, subject to the satisfaction of the conditions set out in paragraph (b)(iv) below.

The number of New Ordinary Shares to be subscribed and/or the subscription price (and the number of Warrants outstanding) will be subject to adjustment as provided in paragraph 2 below. The Warrants registered in a holder's name will be evidenced by a Warrant certificate issued by the Company.

- (b) The subscription rights of the holder of Warrants (save for Ronson 1998 Warrants) shall, subject to sub-paragraph (c) below, be subject to the satisfaction of the following conditions:
- (i) in respect of Ronson 1999 Warrants:
 - (A) Victor Kiam remaining as chairman of the Company continuously during the period from 1 July 1998 until 30 June 1999 (inclusive); and
 - (B) the arithmetic mean of the closing middle market quotation on the London Stock Exchange for one New Ordinary Share during the period from 1 March 1999 to 30 June 1999 (inclusive), as quoted in the London Stock Exchange Daily Official List, being not less than 2p;
 - (ii) in respect of Ronson 2000 Warrants:
 - (A) Victor Kiam remaining as chairman of the Company continuously during the period from 1 July 1999 until 30 June 2000 (inclusive); and
 - (B) the arithmetic mean of the closing middle market quotation on the London Stock Exchange for one New Ordinary Share during the period from 1 March 2000 to 30 June 2000 inclusive, as quoted in the London Stock Exchange Daily Official List, being not less than 4p;

- (iii) in respect of Ronson 2001 Warrants:
 - (A) Victor Kiam remaining as chairman of the Company continuously during the period from 1 July 2000 until 30 June 2001 (inclusive); and
 - (B) the arithmetic mean of the closing middle market quotation on the London Stock Exchange for one New Ordinary Share during the period from 1 March 2001 to 30 June 2001 (inclusive), as quoted in the London Stock Exchange Daily Official List, being not less than 6p.
- (iv) in respect of Ronson 2002 Warrants:
 - (A) Victor Kiam remaining as chairman of the Company continuously during the period from 1 July 2001 until 30 June 2002 (inclusive); and
 - (B) the arithmetic mean of the closing middle market quotation on the London Stock Exchange for one New Ordinary Share during the period from 1 March 2002 to 30 June 2002 (inclusive), as quoted in the London Stock Exchange Daily Official List, being not less than 8p.
- (c) The conditions set out in paragraph (b)(i)(B), (ii)(B), (iii)(B) and (iv)(B) shall from time to time be adjusted as follows:
 - (i) if and whenever there shall be an alteration in the nominal amount of New Ordinary Shares as a result of a consolidation or sub-division, the relevant price per New Ordinary Share referred to in the relevant condition in force immediately prior to such alteration shall be adjusted in the same manner as any adjustment made to the subscription price pursuant to paragraph 2(a) below;
 - (ii) if and whenever the Company shall allot to holders of New Ordinary Shares any ordinary shares credited as fully paid by way of capitalisation of reserves or profit (other than ordinary shares paid up out of distributable reserves and issued in lieu of a cash dividend), the relevant price per New Ordinary Share referred to in the relevant condition in force immediately prior to such allotment shall be adjusted in the same manner as any adjustment made to the subscription price pursuant to paragraph 2(a) below;
 - (iii) if and whenever the Company shall make any capital distribution to holders of New Ordinary Shares (in their capacity as such holders whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the relevant price per New Ordinary Share referred to in the relevant condition in force immediately prior to such distribution or grant shall be adjusted any adjustment to the subscription price pursuant to paragraph 2(a) below;
 - (iv) where an event which gives or may give rise to an adjustment to the relevant share price occurs whether in such proximity in time to another such event or otherwise in circumstances such that the Company in its absolute discretion determines the relevant condition needs to be subject to some modification in order that the relevant condition is fair and reasonable in all the circumstances, such modification shall be made in the operation of the foregoing provisions as may be advised by the Auditors to be in their opinion appropriate to give such a result.
- (d) The conditions set out in paragraph (b)(i)(A), (ii)(A), (iii)(A) and (iv)(A) above shall not apply in the event that Victor Kiam is removed as chairman of the Company without due cause in respect of the relevant period in which such removal shall occur and in respect of all subsequent periods but shall apply in respect of all periods prior to such removal. For the avoidance of doubt, Victor Kiam assuming the role of non-executive chairman shall not constitute his removal as chairman and "Due cause" shall include (without limitation to the generality of this expression) the following reasons:
 - (i) Victor Kiam being a director of any UK Company that is carrying on business in competition with the Company or any subsidiary or associate of the Company save for directorships as at 26 August 1998 of companies wherever situated and with the prior written consent of the Board;
 - (ii) Victor Kiam being guilty of conduct tending to bring, in the reasonable opinion of the Company, either Victor Kiam or the Company or any subsidiary or associate of the Company into disrepute, becoming prohibited by law from being a director of a company or being unable in the reasonable opinion of the Board to carry out his appointment due to ill-health.
- (e) In order to exercise the subscription rights, in whole or in part, the holder of Warrants must lodge the relevant Warrant certificate (or such other document as the Company may, in its discretion, accept) at the registered office of the Company together with the completed notice of exercise of subscription rights thereon, accompanied by a letter (with supporting evidence) that the relevant conditions to the exercise of the Warrants

have been satisfied and the remittance for the aggregate subscription price for the New Ordinary Shares in respect of which the subscription rights are exercised. Once lodged, a notice of exercise of subscription rights shall be irrevocable save with the consent of the Directors of the Company. Compliance must also be made with statutory and regulatory requirements for the time being applicable.

- (f) New Ordinary Shares issued pursuant to the exercise of subscription rights will be allotted not later than 14 days after the date on which the relevant Warrant certificate (or other relevant document(s)) were lodged at the Company's registered office (the "subscription date") and certificates in respect of such New Ordinary Shares will be despatched (at the risk of the person(s) entitled thereto) not later than 20 days after the relevant subscription date to the person(s) in whose name(s) the Warrant is registered at the date of such exercise (and, if more than one, to the first-named, which shall be sufficient despatch for all) or (subject as provided by law and to the payment of stamp duty reserve tax or any like tax as may be applicable) to such other person(s) (not being more than four in number) as may be nominated to the Company on exercise of the Warrant (and, if more than one, to the first-named, which shall be sufficient despatch for all). In the event of a partial exercise of the subscription rights evidenced by a Warrant certificate, the Company shall at the same time issue a fresh Warrant certificate in the name of the holder(s) for any balance of subscription rights remaining exercisable by such holder(s).
- (g) New Ordinary Shares allotted pursuant to the exercise of subscription rights will not rank for any dividends or other distributions declared, paid or made on the New Ordinary Shares by reference to a record date on or prior to the relevant subscription date but, subject thereto, will rank in full for all dividends and other distributions declared, paid or made on the New Ordinary Shares and otherwise will rank *pari passu* in all other respects with the New Ordinary Shares in issue at the relevant subscription date.
- (h) For so long as the Company's ordinary share capital is listed on the London Stock Exchange, it is the intention of the Company to apply to the London Stock Exchange for the New Ordinary Shares allotted pursuant to any exercise of subscription rights to be admitted to the Official List and the Company will use all reasonable endeavours to obtain the admission thereof as promptly as possible after the relevant subscription date.
- (i) Any subscription rights not exercised prior to 1 May 2003 will lapse.
- (j) The exercise of subscription rights by any person who is a US person or the right of such a person to receive the New Ordinary Shares falling to be allotted to him following the exercise of his subscription rights will be subject to such requirements, conditions, restrictions, limitations or prohibitions as the Company may at any time impose in its sole discretion for the purpose of complying with the securities laws of the US (including without limitation the US Securities Act of 1933, as amended, the US Investment Company Act of 1940, as amended, and any rules or regulations made under such Acts). As used herein, "US person" means any person or entity defined as such in Rule 902(o) under the Securities Act 1933 and without limiting the generality of the foregoing US person includes a natural person resident in the US, a corporation or partnership organised or incorporated under the laws of the US (including any State thereof) and an estate or trust if any executor, administrator or trustee is a US person located outside the US if such agency or branch operates for valid business reasons and is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located and "US" means the United States of America (including each of the States thereof and the District of Colombia) and its territories and possessions.

2. Adjustment of subscription rights

- (a) The subscription price and/or the number of New Ordinary Shares arising on the exercise of subscription rights under outstanding Warrants (as applicable) shall from time to time be adjusted by the auditors for the time being of the Company (the "Auditors") from time to time in such manner, if any, as they think fit to reflect any adjustments made to the Company's issued ordinary share capital.
- (b) If, on a date prior to 1 May 2003, the Company makes any offer or invitation (whether by way of rights issue or otherwise but not being an offer to which paragraph 3(b) below applies or an offer made in connection with scrip dividend arrangements) to the holders of the New Ordinary Shares, the Company shall not be required to procure that the same offer or invitation is made to the then holders of the Warrants but the subscription price shall be adjusted: (i) in the case of an offer of new ordinary shares for subscription by way of rights at a price that is less than the market price at the date of announcement of the terms of the offer, by multiplying the subscription price in force immediately before such announcement by a fraction of which the numerator is the number of ordinary shares in issue on the date of such announcement plus the number of ordinary shares which the aggregate amount payable for the total number of new ordinary shares comprised in such rights issue would purchase at such market price and the denominator is the number of ordinary shares in issue on the date of such

announcement plus the aggregate number of ordinary shares offered for subscription and (ii) in any other case, in such manner as the auditors for the time being of the Company (the "Auditors") shall report in writing to be fair and reasonable. Any such adjustments shall become effective, in the case of (i) above, as at the date of allotment of the new ordinary shares which are the subject of the offer or invitation and, in the case of (ii) above, as at the date determined by the Auditors. For the purposes of this paragraph "market price" shall mean the arithmetic mean of the middle market closing quotations (as derived from the Official List) for one New Ordinary Share for the fifteen consecutive London Stock Exchange dealing days ending on the dealing day immediately preceding the day on which the market price is to be ascertained.

- (c) No adjustment will be made to the subscription price pursuant to paragraphs 2(a) and (b) above if it would result in:-
 - (i) the subscription price being less than the nominal value of the New Ordinary Shares (in which event the subscription price shall be adjusted to an amount equal to the nominal value of the New Ordinary Shares and such adjustment shall be made to the aggregate number of New Ordinary Shares for which each holder of Warrants is entitled to subscribe as may be advised by the Auditors to be in their opinion appropriate to give a result which is fair and reasonable in all the circumstances); or
 - (ii) an increase in the subscription price;
 and, in any event, no adjustment will be made if such adjustment would (taken together with the amount of any adjustment carried forward under the provisions of this paragraph 2(c)) be less than one per cent. of the subscription price then in force and on any such adjustment the adjusted subscription price will be rounded down to the nearest hundredth of a penny and will be carried forward and taken into account in any subsequent adjustment.
- (d) Whenever the subscription price is adjusted in accordance with this paragraph by reason of a consolidation of ordinary shares above, the aggregate number of ordinary shares for which each holder of Warrants is entitled to subscribe will be reduced to take account proportionately of such consolidation.
- (e) The Company shall give notice to the holders of Warrants within 28 days of any adjustment made pursuant to paragraphs 2(a) to (d) above.
- (f) Where an event which gives or may give rise to an adjustment to the subscription price occurs whether in such proximity in time to another such event or otherwise in circumstances such that the Company in its absolute discretion determines that the foregoing provisions need to be operated subject to some modification in order to give a result which is fair and reasonable in all the circumstances such modification shall be made in the operation of the foregoing provisions as may be advised by the Auditors to be in their opinion appropriate in order to give such a result.

3. Other provisions

From the date of issue of the Warrants and for so long as any subscription rights remain exercisable:

- (a) the Company shall keep available for issue sufficient authorised but unissued share capital to satisfy in full all subscription rights remaining exercisable;
- (b) if at any time prior to the date on which any of the Ronson 1999 Warrants, Ronson 2000 Warrants, Ronson 2001 Warrants and/or Ronson 2002 Warrants first become exercisable an offer is made to all holders of ordinary shares (or all such holders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware that as a result of such offer the right to cast a majority of the votes which may ordinarily be cast on a poll at a general meeting of the Company has become vested in the offeror and/or such companies or persons as aforesaid and such offer is at a price in excess of the prices specified in paragraph 1(B)(i)(b), (ii)(B), (iii)(B), (iv)(B), in each case, as adjusted (if applicable) under paragraph 1(c), or certain of them then in respect solely of those Warrants where such offer price is the same as or in excess of such prices then the Company shall give notice to the holders of the Warrants of such vesting within 14 days of its becoming so aware, and each such holder shall be entitled, at any time within the period of 10 days immediately following the date of such notice, to exercise his subscription rights in respect of those Warrants only on the terms (subject to any adjustments pursuant to paragraphs 2(a) to (f)) on which the same could have been exercised if they had been exercisable and had been exercised on the date on which the Company shall have become aware as aforesaid PROVIDED THAT such holder of Warrants shall, in respect of all of the shares arising from the exercise of such Warrants, be obliged to accept such offer immediately following the issue of such shares. Any Warrants which do not become so exercisable shall determine and lapse forthwith without compensation. The publication of a scheme of arrangement under section 425 of the Companies Act 1985 providing for the acquisition by any person of the whole or any part of the issued ordinary share capital of the Company shall be deemed to be the making of an offer for the purposes of this paragraph 3(b) and reference herein to such an offer shall be read and construed accordingly.

4. Modification of rights

All or any of the rights for the time being attached to any class of the Warrants or to the Warrants in general and any of these terms and conditions may from time to time (whether or not the Company is being wound up) be altered or abrogated with the consent in writing of the holders of three quarters of the Warrants then in issue or with the sanction of an extraordinary resolution of the holders of the relevant class of the Warrants or the holders of the Warrants, as appropriate. All the provisions of the Articles of Association for the time being of the Company as to general meetings shall *mutatis mutandis* apply as though the Warrants or the class of Warrants were a class of shares forming part of the capital of the Company, but so that:

- (a) the necessary quorum shall be one or more holders (present in person or by proxy) of outstanding Warrants or of outstanding Warrants of one class entitled to subscribe one third in nominal amount of the New Ordinary Shares attributable to all outstanding Warrants or Warrants of that class as appropriate;
- (b) every holder of a Warrant present in person at any such meeting shall be entitled on a show of hands to one vote and every such holder present in person or by proxy shall be entitled on a poll to one vote for every New Ordinary Share for which he is entitled to subscribe;
- (c) any holder of a Warrant present in person or by proxy may demand or join in demanding a poll; and
- (d) if at any adjourned meeting a quorum as defined above is not present, those holders of Warrants (which may be only one holder) who are then present in person or by proxy shall be a quorum.

Any such alteration or abrogation approved as aforesaid shall be effected by deed poll executed by the Company and expressed to be supplemental to the Warrant Instrument. Modifications to the Warrant Instrument which are of a formal, minor or technical nature, or made to correct a manifest error, and which do not adversely affect the interests of holders of the Warrants, may be effected, without the sanction of an extraordinary resolution of the holders of the Warrants or relevant class of Warrants, by deed poll executed by the Company and expressed to be supplemental to the Warrant Instrument and notice of such alteration or abrogation or modification shall be given by the Company to the holders of the Warrants.

For the purposes of this paragraph, any references to "Warrants" shall exclude those Warrants which have become incapable of exercise (whether by virtue of any condition to their exercise having become incapable of satisfaction or otherwise howsoever).

5. Transfer

Each Warrant will be in registered form and will be non-transferable.

6. General

- (a) For the purpose of these terms and conditions, "extraordinary resolution of the holders of the Warrants" means a resolution proposed at a meeting of the holders of the Warrants duly convened and passed by a majority consisting of not less than three-quarters of the votes cast, whether on a show of hands or on a poll.
- (b) For the purpose of these terms and conditions, "extraordinary resolution of the holders of the relevant class of the Warrants" means a resolution proposed at a meeting of the holders of the relevant class of Warrants duly convened and passed by a majority consisting of not less than three-quarters of the votes cast, whether on a show of hands or on a poll.
- (c) Subject as provided in paragraph 5, the provisions of the Articles of Association for the time being of the Company relating to notices, notice of meetings, untraced members, lost certificates and the registration, transfer and transactions of ordinary shares shall, *mutatis mutandis*, apply to the Warrants as if they were ordinary shares.
- (d) Any determination or adjustment made pursuant to these terms and conditions by the Auditors shall be made by them as experts and not as arbitrators and any such determination or adjustment made by them shall be final and binding on the Company and each of the holders of the Warrants.
- (e) Any reference in these particulars to a statutory provision shall include that provision as from time to time modified or re-enacted.

PART VIII

SUMMARY OF THE PRINCIPAL TERMS OF THE CONVERTIBLE SHARES

The Convertible Shares will be created by the passing of Resolution 1 to be proposed at the Extraordinary General Meeting. The rights and restrictions attaching to the Convertible Shares will be contained in Article 3 (C) of the Articles of Association of the Company as amended by the Resolution 2 to be proposed at the Extraordinary General Meeting and are set out in full in the Notice of the Extraordinary General Meeting at the end of this document. The principal rights and restrictions attaching to the Convertible Shares are as follows:

1. Dividends

The Convertible Shares will carry the right to receive any payment of dividends or other distributions and to otherwise participate in the profits or reserves of the Company (including without limitation the capitalisation of profits and reserves) *pari passu* in all respects with the New Ordinary Shares.

2. Capital

On a return of the capital of the Company on a winding up or otherwise (but not on any conversion, redemption or purchase of shares) each holder of Convertible Shares will rank *pari passu* with the holders of the New Ordinary Shares.

3. Voting

The holders of the Convertible Shares will be entitled *pari passu* with the holders of the New Ordinary Shares to receive notice of, and to attend, speak and vote at every general meeting of the Company. Upon any resolution proposed at a general meeting of the Company each holder of Convertible Shares shall, on a show of hands, have one vote and, on a poll, shall have one vote for each New Ordinary Share into which the Convertible Shares held by him would be converted if his conversion rights had been exercised in full immediately prior to the record date to the relevant meeting.

4. Conversion

All or any of the Convertible Shares may be converted at any time or times into fully paid New Ordinary Shares on the basis of one fully paid New Ordinary Share for every Convertible Share in whole or in part. Conversion may be effected by the reclassification of each Convertible Share as one Ordinary Share or in such other manner as the Directors may determine and as the law and the Articles of Association of the Company allow including, without prejudice to the generality of the foregoing, by redemption out of distributable reserves, out of the proceeds of a fresh issue of shares made for the purpose of such redemption or by means of reclassification, consolidation and sub-division. Any redemption of Convertible Shares for the purpose of conversion will be at par.

Conversion of some or all of the Convertible Shares held by a person may be effected at the option of such person at any time on giving written notice, in the prescribed form, to the Company specifying the number of Convertible Shares to be converted.

The New Ordinary Shares resulting from the conversion will carry the right to receive all dividends and other distributions declared on the New Ordinary Shares after the applicable conversion date and will otherwise rank equally in all respects with the fully paid New Ordinary Shares then in issue.

The rate at which Convertible Shares are convertible into New Ordinary Shares shall be adjusted in the event of a sub-division or consolidation of New Ordinary Shares or of any capital distribution to the holders of the New Ordinary Shares. The purpose of these adjustments is to ensure that, at all times, the Convertible Shares shall convert into a number of Ordinary Shares equal to ten per cent. of the Maximum Enlarged Issued Share Capital. Any adjustment may not have the effect of reducing the percentage of the Maximum Enlarged Issued Share Capital into which such Convertible Shares convert.

5. Transfer

The Convertible Shares are transferable at any time by the holders.

6. Miscellaneous

Any consolidation or sub-division of the Ordinary Shares will result in the consolidation or sub-division (as applicable) of the Convertible Shares by the same multiple.

PART IX

SUMMARY OF THE PRINCIPAL TERMS OF THE 1998 SHARE OPTION SCHEME

The 1998 Share Option Scheme will be administered by the Board, subject to shareholder approval. The principal terms of the 1998 Share Option Scheme are summarised as follows:

1. Eligibility

All full-time employees and full-time executive directors of the Group are eligible to participate if they are not within two years of their contractual retirement date.

2. Grant of Option

An option may be granted within 42 days after either the date on which the 1998 Share Option Scheme is approved by shareholders or the announcement of the Company's interim or final results in each year. No option may be granted more than 10 years after the approval of the 1998 Share Option Scheme by the shareholders of the Company.

3. Option price

The option price per New Ordinary Share is the then market value for such New Ordinary Share, being the average of the middle market quotation of the New Ordinary Shares as derived from the London Stock Exchange Daily Official List during the 30 dealing days immediately preceding the date of grant (or the nominal value of a New Ordinary Share if greater).

In the event of a variation in the share capital of the Company, the option price and/or the number of the New Ordinary Shares comprised in each option may be adjusted as the auditors of the Company confirm in writing to be fair and reasonable. No adjustment may be made which will reduce the option price below the nominal value of a New Ordinary Share.

4. Rights and restrictions

An option granted under the 1998 Share Option Scheme is not transferable and generally may only be exercised within the period of 3 to 10 years after the date of grant, except in circumstances referred to in this sub-paragraph 4, be subject to such performance-related conditions as the Board may determine. The Board intends that the options to be granted will be subject to substantially the same share price criteria that apply to the Warrants to be issued to Mr. Kiam as described in Part VII of this document.

An option is exercisable within a limited period if the option holder ceases to be employed within the Group by reason of his employing company ceasing to be a member of the Group; or because his employing business is being transferred out of the Group; or, at the discretion of the Board, for any other reason. The personal representatives of an option holder may exercise an option within 6 months of the death of an option holder unless the Board otherwise determines, upon an option holder ceasing to be employed by the Company for whatever reason save as set out above, the relevant option(s) shall lapse.

Options are exercisable within a limited period in the event of a takeover of the Company and will in certain circumstances lapse if not so exercised. Options are also exercisable within a limited period in the event of the voluntary winding-up of the Company.

5. Allotment of Ordinary Shares

The New Ordinary Shares allotted under the 1998 Share Option Scheme will rank *pari passu* with the Company's issued New Ordinary Shares.

6. Scheme limits

The aggregate number of New Ordinary Shares issued or remaining issuable under the 1998 Share Option Scheme pursuant to options granted (including options granted under any other share scheme excluding a savings related share option scheme) may not exceed at any time 10 per cent. of the issued ordinary share capital immediately following the Placing and Open Offer, excluding New Ordinary Shares issued on the conversion of the Convertible Shares and issued upon the exercise of the Warrants from time to time.

7. Alteration

The Board may alter or add to the rules of the 1998 Share Option Scheme except that (apart from minor amendments to benefit the administration of the Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, or the Group) no alteration can be made to the advantage of participants without the prior approval of shareholders in a general meeting and no alteration can be made to the detriment of an option holder without the consent of 75 per cent. of the option holders.

PART X

ADDITIONAL INFORMATION

1. Responsibility

The Directors, whose names appear paragraph 2 below, accept responsibility for the information contained in this document (other than information relating to Stancroft and its associates, the directors of Stancroft, members of their immediate families and related trusts and persons connected with Stancroft or acting in concert with Stancroft (other than Victor Kiam and Albion)). To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information for which they take responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information. The directors of Stancroft accept responsibility for information contained in this document relating to Stancroft and its associates, the directors of Stancroft and members of their immediate families and related trusts and persons connected with Stancroft and persons acting in concert with Stancroft (other than Victor Kiam and Albion). To the best of the knowledge and belief of the directors of Stancroft (who have taken all reasonable care to ensure that such is the case) the information for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Directors

The Directors and their functions are as follows:

| | |
|-----------------------|---------------------------|
| Victor Kermit Kiam | Executive Chairman |
| Farzad Ali Rastegar | Executive Deputy Chairman |
| Richard Laurence Todd | Finance Director |

The business address of each of the Directors, which is also the Company's registered office and principal place of business, is at Ronson House, Broadfield Park, Brighton Road, Crawley, West Sussex, RH11 9RT.

The principal activities performed by the Directors outside the Group are as follows:

Victor Kiam, became a Director on 6th March 1998. He presently serves as Chairman of Remington Products Company, LLC. He is also chairman of several private companies, including the Franzus Company, the leading travel appliance and accessory company in the United States, Cirrus Air Technologies, the marketer of EarPlanes, a device that eradicates painful ear pressure for travellers who fly, and Lady Remington Jewellery, a party plan jewellery distributor. He is also Chairman of Citadel Technologies, a software provider of computer security and is a Director of News Communications, Inc.

Farzad Rastegar, Executive Deputy Chairman became a Director on 6th March 1998. He is a director of Berkeley Capital Advisors, investment advisers to Albion, the Company's largest shareholder. In the UK, he is also a non-executive director of Apax Partners & Co. Corporate Finance Limited and Executive Chairman of Sunleigh plc.

Laurie Todd, the Finance Director, has no other directorships or outside business interests.

3. The Company

The Company whose registered and head office is at Ronson House, Broadfield Park, Brighton Road, Crawley, RH11 9RT was incorporated in England and Wales as a public limited company under the Companies Acts 1948 to 1981 with the name of Watling (121) plc, with registered number 1907889, on 23rd April 1985. On 3rd October 1985, the name of the Company was changed to Hoskins Brewery plc. On 12th January 1994, the name of the Company was changed to Halkin Holdings plc and on 6th September 1995, to Ronson plc. The principal legislation under which the Company operates is the Act and regulations made thereunder.

The Company is the holding company of the Group. The principal objects of the Company, as set out in Clause 3 of its memorandum of association, is to carry on the business of an investment company and to carry on any other trade or business whatever which, in the opinion of the Board, can be advantageously carried on ancillary to the businesses of the Company.

4. Principal Subsidiaries

The Company is a holding company (with 21 subsidiaries, 16 of which are dormant) and the following two are the principal trading subsidiaries which are included in the consolidated accounts of the Company and are incorporated in England and Wales:

| Name | Activity | Registered office | Capital holding by the Company (per cent.) |
|--|---|---|--|
| Ronson International Limited | Import and distribution of lighters and gift products | Ronson House Broadfield Park Brighton Road Crawley RH11 9RT | 100 (direct holding) |
| Ronson International Jewellery Limited | Distribution of jewellery | Ronson House Broadfield Park Brighton Road Crawley RH11 9RT | 100 (indirect holding) |

5. Share capital

- (a) The following changes in the amount of the issued capital of the Company have taken place since 26 August 1995:

| Ordinary shares | | |
|-----------------|--------------|-----------------|
| Rights Issue | Subscription | Price per share |
| August 1996 | August 1996 | |
| 40,318,219 | 4,479,810 | 25p |

The terms of the subscription which took place in August 1996 included, amongst other things, the right for Albion to nominate one non-executive director to the Board.

Save as disclosed above, there have been no changes since 26 August 1995 in the amount of the issued capital of the Company or any member of the Group and/or the number and classes of shares of which it is composed.

- (b) At the date of this document, the authorised share capital of the Company is £6,849,201 divided into 136,984,020 Ordinary Shares of which 89,596,203 have been issued fully paid or credited as fully paid;
- (c) Subject to the passing of the Resolutions:
- each of the existing Ordinary Shares of the Company will be subdivided and re-classified into one New Ordinary Share and one Deferred Share;
 - the authorised share capital of the Company will be increased from £6,849,201 to £20,000,000 (representing an increase of 292%) by the creation of an additional 131,382,672,700 New Ordinary Shares and 125,317,342 Convertible Shares;
 - the Directors will be authorised generally and unconditionally to allot relevant securities (within the meaning of section 80(2) of the Act) of up to a maximum nominal amount of £147,687.05 (representing 3.3% of the total issued ordinary share capital of the Company as at the date of publication of this document);
 - the Directors will be authorised to allot equity securities (within the meaning of sub-section 94(2) of the Act) pursuant to the authority conferred in (ii) above other than *pro rata* to existing holders of equity securities, as if section 89(1) of the Act did not apply and such authority will be limited to:
 - a maximum nominal amount of £85,028.39 in connection with the Placing and Open Offer;
 - a maximum nominal amount of £12,531.73 in connection with the Subscription;
 - a maximum nominal amount of £9,398.91 in connection with the issue of the Warrants;
 - the allotment of equity securities in connection with an offer by way of rights in favour of Ordinary Shareholders and others entitled to participate in such offer in proportion (as nearly as may be) to their then holdings or deemed holdings of equity securities (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems in any overseas territory or the requirements of any regulatory body or stock exchange or otherwise howsoever); and
 - any allotment of equity securities otherwise than pursuant to paragraphs (aa)-(dd) above limited to an aggregate nominal value of £115,918.54, provided that such authority may only be exercised by the Board from time to time acting unanimously.

The authority referred to in paragraph (iv) above will expire on whichever is the earlier of the Annual General Meeting of the Company in 1999 and the date which is fifteen months after the date of the passing of the Resolutions, and will be in respect of a maximum aggregate nominal amount of £222,877.47 representing 4.98% of the total issued ordinary share capital of the Company as at the date of publication of this document.

- (d) Following completion of the Proposals (but assuming no exercise of Warrants or conversion of Convertible Shares), the authorised share capital will be £20,000,000 divided into 131,519,659,720 New Ordinary Shares, 136,984,020 Deferred Shares and 125,317,342 Convertible Shares, of which 130,579,776,655 New Ordinary Shares, 89,596,203 Deferred Shares and 125,317,342 Convertible Shares will be issued and 130,579,776,655 New Ordinary Shares will remain authorised but unissued.
- (e) The provisions of sub-section 89(1) of the Act (which, to the extent not disapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of the Company, except to the extent disapplied by the Resolutions. The continuing obligations of the Company under the requirements of the London Stock Exchange are that, unless the approval of the shareholders in general meeting is obtained, the Company must offer shares to be issued for cash to existing shareholders on a *pro rata* basis.
- (f) Save as disclosed in this document neither the Company nor any of its subsidiaries has granted any options over its share or loan capital which remain outstanding or has agreed, conditionally or unconditionally, to grant any such options.
- (g) The existing Ordinary Shares are, and the New Ordinary Shares will be, in registered form.
- (h) The existing Ordinary Shares are listed on the Official List.

6. Table of market quotations

The following table shows the closing middle market quotations for Ordinary Shares as derived from the Daily Official List on the first dealing day in each month from January to June 1998 and for the last dealing date prior to the suspension of the Company's Ordinary Shares:

| | |
|------------|--------|
| 2 January | 11.50p |
| 2 February | 6.25p |
| 2 March | 10p |
| 1 April | 10.25p |
| 1 May | 7p |
| 1 June | 6.25p |
| 30 June | 4.50p |

7. Directors' and other interests and dealings

- (a) As at the date of this document, the interests of the Directors which have been notified by each Director to the Company pursuant to sections 324 or 328 of the Act or which are required pursuant to section 325 of the Act to be entered in the register of Directors' interests, and the interests of any connected person with a Director (within the meaning of section 346 of the Act) which would, if the person connected were a Director, require disclosure and the existence of which is known or could with reasonable diligence be ascertained by that Director, all of which are beneficial interests unless otherwise stated, in the share capital are as follows:

| Director | Number of existing Ordinary Shares held | Percentage of existing Ordinary Shares held | Number of New Ordinary Shares to be held | Percentage of New Ordinary Shares to be held |
|-----------------|---|---|--|--|
| Farzad Rastegar | 15,828,279 | 17.67 | 228,098,464 | 24.27% |
| Victor Kiam | — | — | 100,000,000 | 10.64% |
| Laurie Todd | — | — | 500,000 | 0.05% |

Save as disclosed below, no director of Ronson nor any of their associates or parties acting in concert with them nor any members of their immediate family have dealt in any shares of the Company in the twelve month period preceding the date of publication of this document.

| Director | Date | Purchases | Price (p) per share | Resultant Shareholding |
|-----------|-------------------|-----------|---------------------------|---------------------------|
| Stancroft | 29 September 1997 | 100,000 | 15p | 3,770,000 |
| | 10 October 1997 | 100,000 | 13p | |
| | 10 November 1997 | 100,000 | 12p | |
| | | | | 4.21% |

Stancroft is a concert party together with Albion and Victor Kiam. A director of Stancroft, Drs I Klausner, sold 50,000 Ordinary Shares on each of 13 February 1998 and 17 March 1998 at 6.25p and 9p respectively and Mrs H Klausner holds 50,000 ordinary shares, acquired by a transfer from her husband on 13 February 1998 at a price of 6.25p.

- (b) Save as disclosed in this paragraph 7, none of the Directors has any interest in the share capital of the Company or any of its subsidiaries and, save as disclosed, the Company is not aware of any other person connected with a Director who holds any other interest over Ordinary Shares.
- (c) The Company operates the 1994 Share Option Scheme. The principal provisions of the Scheme are set out in paragraph 10 below. No options have been granted under the 1994 Share Option Scheme which remain capable of being exercised.
- (d) Save as disclosed in this document, 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 in relation to the business of the Group, taken as a whole, and which was effected by the Company during the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.
- (e) Save as disclosed in this document, there are no contractual arrangements with Albion, the Company's controlling shareholder.
- (f) There are no loans or guarantees which have been granted or provided to or for the benefit of any Director by the Company or any of its subsidiaries.
- (g) As at 21 August 1998, being the latest practicable date before the publication of this document, the Company has been notified pursuant to sections 198 to 202 of the Act or is otherwise aware of the following interests which represent three per cent. or more of the issued ordinary share capital of the Company. The table also sets out the interests (assuming, in each case, that maximum commitments under the Placing and Open Offer are taken up), which will so far as the Company is aware represent three per cent. or more of the issued ordinary share capital of the Company, following the implementation of the Proposals:

| | <i>Number of Existing Ordinary Shares</i> | <i>Percentage of Ordinary Shares held</i> | <i>Number of New Ordinary Shares held</i> | <i>Percentage of New Ordinary Shares held</i> |
|-------------------------------------|---|---|---|---|
| Albion Consortium Fund Limited | 15,828,279 | 17.67 | 228,098,464 | 24.27% |
| Fidelity International Limited | 8,854,900 | 9.88 | 92,988,225 | 9.89% |
| Lars T Rydstrom | 6,913,452 | 7.72 | 36,295,623 | 3.86% |
| Stancroft Trust Limited | 3,770,000 | 4.21 | 194,792,500 | 20.73% |
| Edinburgh Small Companies Trust PLC | 3,108,640 | 3.47 | 22,320,360 | 2.37% |
| Richard Brainin | 3,250,000 | 3.63 | 17,062,500 | 1.82% |
| Shaun Coleman Dowling | 2,804,828 | 3.13 | 14,725,347 | 1.57% |
| Victor Kiam | — | — | 100,000,000 | 10.64% |

Save as disclosed above or elsewhere in this document the Company is not aware of any person or persons who is interested (within the meaning of the Act) directly or indirectly interested in 3% or more of the issued ordinary share capital of the Company or who could, directly or indirectly, jointly or severally exercise, or could exercise, control over the Company.

- (h) None of the Directors has or has had any interests, direct or indirect, in any assets which, during the two years immediately preceding the date of this document, were acquired or disposed of or leased to the Group.
- (i) Other than 43,250 Ordinary Shares, representing 0.05 per cent. of the current issued share capital, held by Charles Stanley on behalf of discretionary clients and 225,000 Ordinary Shares, representing 0.25 per cent. of the issued share capital, held by John Watton, a partner of Hughes Watton, the legal advisers to Albion. Centron Management Limited, a company controlled by John Watton, has agreed to subscribe for up to 22,000,000 New Ordinary Shares subject to clawback under the terms of the Open Offer. There are no discretionary shareholdings or securities convertible into rights to subscribe for options including traded options and derivatives in the Company owned or controlled by a subsidiary of the Company, by any pension fund of any member of the Group, or by any bank or financial or other professional adviser of the Company (including stockbrokers but excluding exempt market makers and exempt fund managers) including any person controlling, controlled by or under the same control as such bank or financial or other professional adviser.
- (j) Save as disclosed in Part VI of this document, no Director or member of his immediate family nor any person connected with such Director is interested (as defined in Parts VI and X of the Act) in the share capital of Albion or Stancroft nor have they dealt in any such shares in the 12 months prior to the date of publication of this document.
- (k) Save as disclosed in Part VI of this document, neither Albion nor any of the directors of Albion, nor Stancroft nor any of the directors of Stancroft, nor any person acting in concert with any of the aforesaid nor any associates or immediate family members of the aforesaid was interested in any shares of the Company on 24 August 1998 (the latest practicable date prior to the publication of this document) nor has any such person dealt for value therein during the period commencing 12 months prior to the date of publication of this document.

- (l) Albion, Stancroft and Victor Kiam are, for the purposes of Rule 9 of the City Code on Takeovers and Mergers, to be regarded as parties acting in concert. Details of their respective holdings in the Company are set out in Part VI of this document.
- (m) Neither Albion nor Stancroft nor any of the directors thereof nor any of the aforesaid directors' associates nor any person acting in concert with any of them has any arrangement, including indemnity and option arrangements, any agreement or understanding, formal or informal, of whatever nature relating to the Company's shares which may be an inducement to deal or refrain from dealing in such shares.
- (n) There is no agreement, arrangement or understanding relating to the transfer of any New Ordinary Shares or Convertible Shares to any persons by any of the Concert Parties.
- (o) Save as disclosed above, the Directors are unaware of any arrangement or understanding that exists between any member of the Concert Party and any of the Directors, recent directors, shareholders or recent shareholders of the Company, which has any connection with or dependence on the implementation of the Proposals.

8. Directors' service agreements and emoluments

- (a) The total aggregate of the remuneration paid and benefits in kind granted to the Directors by the Group for the year ended 31st December 1997 was £714,000.
- (b) The following benefits in kind are provided to the executive Directors:
 - (i) *Pension contributions*
The Company does not operate a Group pension scheme but makes contributions to individual executive Directors' pension schemes of up to a current maximum of 9 per cent. of gross salary.
 - (ii) *Car allowance*
The Company does not provide executive Directors with company cars but provides a car allowance of 10 per cent. of salary up to a current maximum of £10,000.
- (c) It is estimated that the Directors shall receive remuneration and benefits in kind of £202,000, in aggregate, from the Group for the current financial year under the arrangements in force at the date of this document.
- (d) (i) Mr R L Todd entered into a service contract with the Company on 5th March 1997 pursuant to which he became Finance Director of the Company. The contract commenced on 7th April 1997 and is to continue until terminated by either party giving to the other 12 months notice of termination. Mr Todd is entitled to remuneration of £110,000 per annum, to be reviewed annually, private health care, options over the Company's shares (although no such options have as yet been granted), an annual contribution of 9 per cent. of salary towards a pension scheme, a payment of 10 per cent. of salary in lieu of provision of a motor car, life assurance and payments under the terms of a performance related bonus scheme. £10,000 has been paid by way of a one-off bonus to Mr. Todd on 1 July 1998.
- (ii) The Company has entered into a consultancy agreement with Berkeley Capital Advisors for the supply of advisory and consultancy services ("the Consultancy Agreement"). Mr Rastegar's services as a director have been supplied under the terms of the Consultancy Agreement since 6 March 1998. The Consultancy Agreement is terminable by one month's notice, provides for payment of £45,000 per annum by the Company in consideration of the provision of services and is governed by English law.
- (iii) Victor Kiam signed a letter of appointment with the Company on 25 August 1998 as Executive Chairman and Chief Marketing Officer. Victor Kiam is entitled to remuneration of £27,000 per annum and reasonable expenses.

9. Properties

The principal properties of the Group are as follows:

| <i>Owner/Tenant</i> | <i>Location</i> | <i>Nature of occupation</i> | <i>Current rent per annum</i> | <i>Approximate area (sq ft)</i> |
|------------------------------|----------------------------|-----------------------------|-------------------------------|---------------------------------|
| Ronson International Limited | Crawley, West Sussex | Leased | £224,735 | 13,150 |
| Ronson International Limited | Lowfield Heath, Gatwick | Leased | £74,000 | 12,281 |
| Ronson International Limited | Altrincham, Manchester | Leased | £40,990 | 4,949 |

10. 1994 Share Option Scheme

(a) Introduction

The 1994 Share Option Scheme was adopted by the Company in general meeting on 12th January 1994 and is a Revenue approved scheme having been approved by the Inland Revenue under Schedule 9 of the Taxes Act.

Ordinary Shares to be made available under the 1994 Share Option Scheme that are issued by the Company in satisfaction of the exercise of options will rank *pari passu* in all respects with other Ordinary Shares then in issue except for dividends and other distributions arising by reference to a date prior to the date on which the option holder exercised the option. Application will be made to the London Stock Exchange for the listing of any Ordinary Shares allotted following the exercise of an option. The 1994 Share Option Scheme is administered by the Board.

(b) Scope of the 1994 Share Option Scheme

The maximum number of Ordinary Shares in respect of which options may be granted at any particular time under the 1994 Share Option Scheme when aggregated with the number of Ordinary Shares issued or which the Company could be required to issue by reference to options granted in the ten years preceding the date of the proposed grant under the 1994 Share Option Scheme or any other employee share scheme adopted by the Company in the previous ten years (other than a savings-related share option scheme and excluding Ordinary Shares relating to any option which has lapsed or been surrendered) cannot exceed the lesser of 2,082,500 Ordinary Shares and 5 per cent of the ordinary share capital of the Company in issue at that time.

The maximum number of Ordinary Shares in respect of which options may be granted at any particular time under the 1994 Share Option Scheme when aggregated with the number of Ordinary Shares issued or which the Company could be required to issue by reference to options granted in the ten years preceding the date of the proposed grant under the 1994 Share Option Scheme or any other employee share scheme adopted by the Company in the previous ten years (excluding Ordinary Shares relating to an option which has lapsed or been surrendered) cannot exceed 10 per cent of the ordinary share capital of the Company in issue at that time.

For each period of three years following the approval of the 1994 Share Option Scheme under Schedule 9 to the Taxes Act the Company may not grant options under the 1994 Share Option Scheme which together with options granted under any other employee share scheme exceed 3 per cent in aggregate of the ordinary share capital of the Company from time to time in issue.

The number of shares over which options have been granted may be adjusted in the event of a variation of the Company's share capital but (apart from capitalisation issues) only in a manner which the auditors of the Company confirm in writing to be in their opinion fair and reasonable and in all cases with the prior written approval of the Inland Revenue.

(c) Participation and price payable on exercise of options

Under the 1994 Share Option Scheme, the Board may, at its discretion, grant options to acquire Ordinary Shares to any full time director or employee (working not less than 25 hours per week exclusive of meal breaks) of the Group. No payment will be required for the grant of an option. The price payable on the exercise of an option is determined by the Board and must not be less than the market value of an Ordinary Share on the day immediately preceding the day on which an option is granted (normally being the middle market quotation of an Ordinary Share on the dealing day last preceding that day as derived from the Daily Official List for such day) or the nominal value of a Ordinary Share (if greater).

(d) Rights and restrictions on grant

Options may normally be granted only within six weeks of the first dealing day following the announcement of the Company's interim or final results. No options may be granted more than ten years after the approval of the 1994 Share Option Scheme under Schedule 9 to the Taxes Act. Options are not transferable, but may be exercised by the legal personal representatives of an option holder within 6 months of the option holder's death.

As a result of the enactment of the Finance Act 1996, each individual's participation will be limited so that the value of all subsisting options granted to him in a ten year period under the 1994 Share Option Scheme and any other approved employee share scheme established by the Company or an associated company (other than a savings-related share option scheme) will not exceed or further exceed £30,000 (based on the market value of such options at the date of their grant) or four times the individual's total annual emoluments if less.

(e) Rights and restrictions on exercise

Options remain exercisable for a maximum period of ten years from the date of grant, subject generally to the option holder remaining a full-time director or employee of the Group. In normal circumstances an option

holder will only be able to exercise an option after the third anniversary of the date of grant but the option may be exercised earlier in certain circumstances including on the death of an option holder, on a take-over or on the voluntary winding-up of the Company.

The exercise of options granted under the 1994 Share Option Scheme will normally be linked to the satisfaction of an objective exercise condition imposed by the Board or a committee of the Board on the grant of the option requiring significant and sustained improvement in the underlying financial performance of the Group.

(f) Changes in control and winding-up

In the event of a take-over, reconstruction or the voluntary winding-up of the Company, an option holder may, within certain specified time limits, exercise his options. Following the expiry of these time limits the option will lapse.

11. Articles of Association of the Company and rights attaching to existing Ordinary Shares

Articles of Association

The Articles of Association of the Company, which were adopted on 12 January 1994, contain, *inter alia*, provisions to the following effect:

(a) Rights attaching to Ordinary Shares

(i) Voting rights of members

Subject to disenfranchisement at the discretion of the Board of Directors of the Company or all the Directors present at a meeting at which a quorum is present (the "Board") in the event of (1) non payment of any call or other sum due and payable in respect of any Ordinary Share; or (2) non compliance with any statutory notice requiring disclosure of the beneficial ownership of any Ordinary Shares and subject to any special terms as to voting for the time being attached to any Ordinary Shares, on a show of hands, every member who is present in person or by proxy shall have one vote for every Ordinary Share which such member holds.

(ii) Dividends

Subject to any special rights as to dividend attached to any Ordinary Shares, the holders of Ordinary Shares are entitled *pari passu* amongst themselves, but in proportion to the respective amounts paid up on the Ordinary Shares held by them during any portion or portions of the period in respect of which the dividend is paid, to share in the whole of the profits of the Company paid out as dividends. The Company may, by an ordinary resolution, declare dividends not exceeding the amount recommended by the Board. The Directors may pay interim dividends.

With the sanction of an ordinary resolution of the Company, and the recommendation of the Directors, any dividend may be paid either wholly or in part in specie.

The Board may, if authorised by ordinary resolution of the Company, offer ordinary Shareholders in respect of all or part of any dividend, the right to elect to receive Ordinary Shares, by way of scrip dividend, instead of cash.

Any dividends unclaimed for a period of 12 years after having been declared shall be forfeited and cease to remain owing by the Company. The Company shall be entitled to cease sending dividend warrants or cheques by post to any member if any such warrants or cheques have been returned undelivered or left uncashed on two consecutive occasions.

(b) Transfer of shares

The Ordinary Shares are in a registered form and may be transferred by an instrument of transfer in writing in any usual form or in any other form acceptable to the Directors. The Directors may, in their absolute discretion and without assigning any reason therefore, refuse to register any transfer of Ordinary Shares in respect of which any one of the following conditions is satisfied: (a) the transfer is in respect of a share which is not fully paid; (b) the Company has a lien, (c) the transfer is in respect of more than one class of Ordinary Shares, (d) the transfer is in favour of more than four transferees; or (e) the transfer is not duly stamped. Every instrument of transfer must be left at the transfer office of the Company, or such other place as the Directors may appoint, accompanied by the share certificate for the Ordinary Shares to be transferred and such other evidence as the Directors may reasonably require to prove title of the transferor and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person to do so.

(c) Distribution of assets on a winding-up

On any winding-up of the Company, the liquidator may, with the authority of an extraordinary resolution and subject to the Act, divide among the members in kind the whole or any part of the assets of the Company and

whether or not the assets shall consist of property of one kind, or shall consist of properties of different kinds, and for such purpose may set such value as he deems fair upon any one or more class or classes of property, and may determine how such division shall be carried out as between members or classes of members but so that if any such division shall be otherwise than in accordance with the existing rights of the members, every member shall have the right to dissent.

(d) Variation of rights

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights or privileges for the time being attached to any class of shares may be varied (a) in accordance with the rights already attaching to such shares or (b) in the absence of any express rights, either with the consent in writing of the holders of three-fourths in nominal amount 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. At any such separate general meeting, the necessary quorum is two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class in question (but at any adjourned meeting, one person holding shares of the class or his proxy is a quorum).

(e) Alteration of capital

The Company may by ordinary resolution:

- (i) increase the capital of the Company by the creation of new shares;
- (ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (iii) sub-divide its shares, or any of them, into shares of a smaller amount than is fixed by the memorandum of association of the Company (but always subject to the provisions of the Act) and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of such shares shall have some preferred or other advantage as regards dividend, capital, voting or otherwise over or may have such deferred rights or be subject to any such restrictions as compared with the other shares as the Company has power to attach to unissued or new shares;
- (iv) cancel any shares which, at the date of the 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 share to be cancelled; and
- (v) purchase its own shares (including any redeemable shares) in accordance with the provisions of the Act and with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of any class of convertible shares.

The Company may by special resolution reduce its share capital and any capital redemption reserve fund and any share premium account in any manner authorised by the Act and diminish the amount of its share capital by the amount of the shares so cancelled.

If the Resolutions are passed, the Articles of Association will be amended in the manner described in Resolution 2 set out in the notice of the EGM which is set out at the end of this document.

12. United Kingdom Taxation

The following paragraphs are intended as a general guide only and are based on current legislation and current Inland Revenue practice. They summarise advice received by the Directors of the Company as to the position of Qualifying Shareholders who (unless the position of non-UK resident Qualifying Shareholders is expressly referred to) are resident or ordinarily resident in the United Kingdom for tax purposes and who hold their Ordinary Shares as an investment. The paragraphs headed "Taxation of Chargeable Gains", "Taxation of Dividends" and "Foreign Income Dividends (FIDs) and deemed FIDs" will apply to employees who subscribe for New Ordinary Shares pursuant to the Placing.

(a) Taxation of Chargeable Gains

The Finance Act 1998 makes a number of changes to the capital gains tax regime for individuals. The changes include the withdrawal of indexation allowance (which in general terms increases 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 31st March 1998. For assets acquired prior to 1st April 1998 indexation allowance will be available (in calculating a gain but not a loss) up to and including April 1998. Indexation will be replaced by a taper relief which will reduce the amount of a chargeable gain according to how long the asset has been held after 5th April 1998. For basic and higher rate taxpayers, this taper will result in effective gains tax rates of 13.8% and 24% (at current rates) respectively where assets have been held for 10 years or more. Assets held on 17th March 1998 will be treated as having been held for one extra year for the purposes of taper relief.

(b) The Capital Reorganisation

Under the terms of the Capital Reorganisation, each Ordinary Share (with a nominal value of 5p) will be subdivided into one New Ordinary Share with a nominal value of 0.01p and one Deferred Share with a nominal value of 4.99p. The Capital Reorganisation will not result in a disposal for taxation of chargeable gains purposes. Instead the New Ordinary Shares and the Deferred Shares will be treated as acquired at the time when the Ordinary Shares owned immediately before the Capital Reorganisation were acquired. The base cost of a Qualifying Shareholder in the Ordinary Shares owned immediately before the Capital Reorganisation will be allocated to the New Ordinary Shares and the Deferred Shares in proportion to the relative value of the New Ordinary Shares and the Deferred Shares. In view of the fact that the Deferred Shares will be effectively valueless, for practical purposes all the base cost attributable to the Ordinary Shares held immediately before the Capital Reorganisation should be attributed to the New Ordinary Shares, not the Deferred Shares.

(c) The Open Offer

For individual Qualifying Shareholders the issue under the Open Offer of New Ordinary Shares by the Company up to and including such Qualifying Shareholder's maximum pro-rata entitlement should be treated by the Inland Revenue as a reorganisation. Accordingly, such New Ordinary Shares allotted to an individual Qualifying Shareholder under the Open Offer should be treated as the same asset as his existing holding of New Ordinary Shares (following the Capital Reorganisation). The subscription monies will be added to the base cost of his existing holding but the indexation allowance will not be available in respect of the subscription monies. Instead an individual Qualifying Shareholder will be entitled to taper relief in respect of such New Ordinary Shares, calculated by reference to how long he has held the New Ordinary Shares after 5th April 1998. Where an individual Qualifying Shareholder held Ordinary Shares at 17th March 1998 (before the Capital Reorganisation) which are identified with the New Ordinary Shares as the result of the Capital Reorganisation he will be treated for tapering relief purposes as having held the New Ordinary Shares and the New Ordinary Shares issued as the result of the Open Offer for one extra year.

Where an individual Qualifying Shareholder held Ordinary Shares on 1st April 1998 which are identified with New Ordinary Shares following the Capital Reorganisation indexation allowance will apply to such New Ordinary Shares up to and including April 1998. Thereafter, taper relief will apply to the New Ordinary Shares (with the amount of indexation allowance available to reduce any further capital gain being frozen). Where an individual Qualifying Shareholder acquired Ordinary Shares after 31st March 1998 which are identified with New Ordinary Shares following the Capital Reorganisation indexation allowance will not be available in respect of the existing holdings although taper relief will apply.

The issue under Open Offer of New Ordinary Shares by the Company to its corporate Qualifying Shareholders up to and including such Qualifying Shareholder's maximum pro-rata entitlement should be treated by the Inland Revenue as a reorganisation of the Company's share capital for the purposes of United Kingdom taxation of chargeable gains. Accordingly such New Ordinary Shares allotted to a corporate Qualifying Shareholder under the Open Offer will be treated as the same asset as its existing holding of New Ordinary Shares (following the Capital Reorganisation). The subscription monies will be added to the base cost of its existing holding but, for the purposes of calculating the indexation allowance on a subsequent disposal of New Ordinary Shares, these monies will be taken into account only from the time at which it became liable to make or made payment.

The 17th March 1998 Budget also announced a review of the taxation of chargeable gains of companies, although no proposals have yet been published in this area.

New Ordinary Shares subscribed for under the Open Offer in excess of a Qualifying Shareholder's minimum guaranteed pro-rata entitlement will be treated as a separate acquisition from his existing holding of Ordinary Shares for the purposes of United Kingdom taxation of chargeable gains.

(d) Stamp Duty and Stamp Duty Reserve Tax

No stamp duty or stamp duty reserve tax will be payable on the issue or registration of New Ordinary Shares.

(e) Taxation of Dividends

Current position

No tax will be withheld by the Company when it pays a dividend. However, when paying a dividend, the Company normally has to account to the Inland Revenue for advance corporation tax ("ACT"), currently at the rate of 20/80ths of the amount of the dividend.

A United Kingdom resident Shareholder who receives a dividend will be entitled to a tax credit of an amount equal to the related ACT. The net 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 and may be paid to the individual wholly or partly if his total tax credits exceed his overall tax liability. A United Kingdom resident individual Shareholder who is not liable to income tax at a rate greater than the basic rate (currently 23%) has no further liability to taxation on the dividend. A United Kingdom resident individual Shareholder who is liable to tax at the higher rate (currently 40%) will have an additional tax liability of 20% on the aggregate of the net cash dividend and the tax credit.

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

Charities and individuals who hold their New Ordinary Shares within a Personal Equity Plan are generally entitled to payment of the tax credit associated with a dividend. Pension fund Qualifying Shareholders are not entitled to payment of the tax credit associated with a dividend.

Changes to take effect in 1999

The Company will not have to account for ACT in respect of dividends paid after 5th April 1999. For Qualifying Shareholders the tax regime will also change for dividends paid after 5th April 1999, although the changes will not result in an increased tax liability for Qualifying Shareholders.

From 6th April 1999 the amount of the tax credit will be reduced to 1/9th of the cash dividend paid (or 10% of the aggregate of the net dividend and related tax credit). From that date tax credits will generally no longer be payable to Qualifying Shareholders, subject to tapering relief for charities. Individual Qualifying Shareholders who hold their New Ordinary Shares in an Individual Savings Account or a Personal Equity Plan will be entitled to recover the tax credit on dividends paid by the Company until April 2004.

From 6th April 1999 the lower rate of income tax on dividend income will be reduced to 10%. This will mean that, as under the present regime, the tax credit will discharge the income tax liability of an individual Shareholder who is not liable to income tax at a rate greater than the basic rate. The higher rate of income tax on dividends will be reduced to 32.5% from 6th April 1999 so that a Shareholder who is a higher rate taxpayer will have further income tax to pay at a rate of 22.5% of the dividend and the related tax credit. This will not result in any greater income tax charge than at present.

A United Kingdom resident corporate Shareholder will not generally be liable to corporation tax on any dividend received from the Company.

(f) Foreign Income Dividends (FIDs) and deemed FIDs

Under the provisions of Chapter VA Income and Corporation Taxes Act 1988, the Company may elect to pay a dividend which is a FID for UK tax purposes. In addition, Schedule 7 Finance Act 1997 deems certain distributions (share buybacks and certain dividends connected with a transaction in securities) to be FIDs. FIDs and deemed FIDs do not carry any right to payment of a tax credit but are otherwise treated in the hands of individual Qualifying Shareholders in the same way as an ordinary dividend. FIDs and deemed FIDs do not constitute franked investment income for corporate Qualifying Shareholders, although they may be used to frank onward payments of FID and deemed FIDs.

The FID and deemed FIDs will be repealed with effect from 6th April 1999.

(g) 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 Shareholder 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 referred to above will eliminate or virtually eliminate double tax treaty payments from 6th April 1999. Persons who are not resident in the United Kingdom should consult their own tax advisers concerning their tax liabilities (in the United Kingdom 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 DESCRIPTION OF TAXATION IS GENERAL IN CHARACTER. IF YOU ARE IN ANY DOUBT AS TO YOUR TAX POSITION, YOU SHOULD CONSULT AN APPROPRIATE PROFESSIONAL ADVISER WITHOUT DELAY.

13. Indebtedness

- (a) **Borrowings** - as at the close of business on 31 July 1998, the Group had secured bank overdrafts of £4,429,000 and obligations under finance leases of £175,000.
- (b) **Contingent liabilities** - as at the close of business on 31 July 1998, the Group had contingent liabilities relating to guarantees given to HM Customs & Excise of £560,000 and factored debts where the factor has full recourse to the Group of £656,000.

Save as disclosed above, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 July 1998 any borrowing or indebtedness in the nature of borrowing, including loan capital outstanding or created but unissued, bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages or charges, finance leases or hire purchase commitments or guarantees or other contingent liabilities.

As at the close of business on 31 July 1998, the Group had cash at bank and in hand totalling £12,000.

14. Material contracts

Other than contracts entered into in the ordinary course of business, the following contracts, which are or may be material, have been entered into by the Group within the two years immediately preceding the date of this document:

- (a) A Placing and Open Offer Agreement dated 26 August 1998 between the Company (1), the Directors (2) and Charles Stanley (3) whereby Charles Stanley agrees, as agent for the Company to offer the Open Offer Shares to Qualifying Shareholders at the Offer Price under the Open Offer on the basis of 17 Offer Shares for every 4 Ordinary Shares held on the Record Date and use its reasonable endeavours to procure firm placees to subscribe for the Firm Placing Shares under the Firm Placing and conditional placees to subscribe for the Placing Shares. Charles Stanley's obligations under the Placing and Open Offer Agreement are conditional, *inter alia*, upon the passing of the Resolutions and Admission.

If Charles Stanley's obligations under the Placing and Open Offer Agreement become unconditional it will receive a fee and commission of £225,000 in aggregate and, in addition, it will receive and pay on (i) to placees, and (in respect of their irrevocable undertakings to take up in full their respective entitlements under the Open Offer) to Albion and Stancroft, a commission equal to ½ per cent. of the value at the Issue Price of the Offer Shares to be taken up by them respectively, and (ii) to placees a further commission equal to ¾ per cent. of the value at the Issue Price of all Open Offer Shares which are not subscribed for under the Open Offer but which are taken up by placees.

In the Placing and Open Offer Agreement, the Company and (subject to certain limitations) the Directors have given certain representations and warranties, and the Company has given certain indemnities, in each case to Charles Stanley.

- (b) A licence agreement dated 18th December 1996 and made between Mr. Pierre Cardin (the "Licensor") (1), and Ronson International Jewellery Limited (the "Licensee") (2) under which the Licensor has authorised the Licensee to manufacture and sell Ladies' Costume Jewellery under the Pierre Cardin trade mark. The Licensee agreed to pay the Licensor a Royalty on the sales turnover achieved. There are yearly minimum royalty payments. The Licence Agreement is for a 3 year term effective as of 1st July 1997 and ending on 30th June 2000. The parties have agreed that prior to 30th June 1999 they shall discuss terms for renewal. The Licensor has, since the date of the Licence Agreement, assigned the agreement to PC International Marketing Limited to whom it has also transferred all rights relevant to the Licence Agreement.
- (c) A deed poll relating to the issue of Warrants to Victor Kiam, further details of which are set out in Part VII.
- (d) A relationship agreement dated 25 August 1998 and made between the Company (1), Albion (2) and Farzad Rastegar (3) (the "Relationship Agreement") pursuant to which Albion and Farzad Rastegar (the "Covenantors") covenant to and agree with the Company, *inter alia*:
 - (i) that all or any transaction between the Covenantor(s) and the Group shall be at arms length and on a normal commercial basis;
 - (ii) that, if both the Covenantors and the Company pursue the same opportunity to acquire a substantial interest in any business from time to time operating within the business interests of the Company directly in competition with the Company in respect of the wholesale marketing, sourcing, distribution and licensing of gift products, lighters, smokers' requisites, cosmetics and toiletries ("Areas of Interest") the Covenantors shall allow the Company priority to pursue such an opportunity provided that the Company has sufficient funds or can procure the same from its own resources, and the Covenantors shall not acquire or agree to acquire any such business interests in the Areas of interest until the Company confirms in writing that it does not wish to pursue such opportunity.

The Relationship Agreement shall come into force upon the Covenantors directly or indirectly becoming a controlling shareholder of the Company and shall lapse at such time as the Covenantors cease to hold, directly or indirectly, more than 30 per cent. of the rights to vote at general meetings of the Company.

- (e) The deed of guarantee and indemnity between Albion (1) and National Westminster Bank plc (the "Bank") (2) entered into on 6 March 1998 under which Albion agreed to guarantee the Company's borrowings with the Bank in excess of £2,000,000 up to a maximum of £2,500,000 until 30 June 1998. The Bank agreed to assign to Albion the benefit of the Bank's security being mortgage debentures over the Group assets together with cross guarantees once all the obligations of the Group to the Bank have been re-paid in full. This guarantee was with effect from 30 June 1998 and 20 August 1998 and expires on 30 September 1998.
- (f) The guarantee by Victor Kiam dated 24 June 1998 in support of the irrevocable stand by letter of credit granted by The Provident Bank to National Westminster Bank plc on 30 June 1998 in respect of the Company's borrowings with the Bank in excess of £4,500,000 up to a maximum of £1,000,000 which expired on 30 August 1998. The Kiam Guarantee and the letter of credit were extended with effect from 20 August 1998 to expire on 30 September 1998.
- (g) By a letter from Ronson to Stancroft dated 26 August 1998, it was agreed that for so long as Stancroft holds in aggregate at least 10 per cent. of the voting issued capital excluding any New Ordinary shares arising on the exercise of the Warrants or the options granted under the Option Schemes, then Stancroft have the right to nominate two directors to the board, and the Company shall provide to Stancroft business and financial information relating to the Company. In addition, for so long as Stancroft holds any voting issued capital excluding any New Ordinary Shares arising on the exercise of the Warrants or the options granted under the Option Schemes, then Stancroft shall have the right to nominate one director to the Board, the Board will appoint such nominee as a director save where the Board has good cause to refuse the appointment, in which case, Stancroft may nominate an alternative.
- (h) By a letter from Ronson to Albion dated 26 August 1998, it was agreed that for so long as Albion or any other discretionary fund advised by Berkeley Capital Advisors holds in aggregate at least 10 per cent. of the voting issued capital excluding any New Ordinary Shares arising on the exercise of the Warrants or the options granted under the Option Schemes, then Albion or any other discretionary fund(s) advised by Berkeley Capital Advisors have the right to nominate two directors to the Board, and the Company shall provide to Albion and any other discretionary fund(s) advised by Berkeley Capital Advisors business and financial information relating to the Company. In addition, for so long as Albion or any other discretionary fund(s) advised by Berkeley Capital Advisors holds any voting issued capital excluding any New Ordinary Shares arising on the exercise of the Warrants or the options granted under the Option Schemes, then Albion or any other discretionary fund(s) advised by Berkeley Capital Advisors shall have the right to nominate one director to the Board, the Board will appoint such nominee as a director save where the Board has good cause to refuse the appointment, in which case, Albion or any other discretionary fund(s) advised by Berkeley Capital Advisors may nominate an alternative. This agreement will replace the previous agreement between Albion and the Company dated 2 August 1996 and shall be governed by and construed in accordance with English law.
- (i) A subscription agreement dated 26 August 1998 between Albion and the Company under which Albion agrees to subscribe for 100,253,874 Convertible Shares at par;
- (j) A subscription agreement dated 26 August 1998 between Stancroft and the Company under which Stancroft agrees to subscribe for 25,063,468 Convertible Shares at par.

15. Working Capital

The Company is of the opinion that, taking into account available bank and other facilities, and the estimated net proceeds of the Proposals, the Group has sufficient working capital for its present requirements.

16. Litigation

- (a) No member of the Group is engaged in any other legal or arbitration proceedings nor are any such proceedings pending or threatened which may have or have had during the 12 months prior to the date of this document a significant effect on the financial position of the Group.
- (b) Following Lars Rydstrom's resignation as a director of the Company on 7 July 1998, his solicitors have indicated that proceedings may be issued against the Company in respect of amounts claimed under his service agreement. The terms of his service agreement provided for 12 months' notice. Any proceedings will be vigorously defended.

17. Significant Change

There has been no significant or material change in the financial or trading position of the Group since 4 July 1998, being the date to which the Company's latest published unaudited interim financial statements are made up.

18. Consent

Charles Stanley has given and has not withdrawn its written consent to the publication of this document with the inclusion herein of the references to its name in the form and context in which they appear and has authorised the contents of those parts of the prospectus for the purposes of section 152(1)(e) of the Financial Services Act 1986.

Baker Tilly has given and has not withdrawn its written consent to the publication of this document with the inclusion herein of its letter and references to its name in the form and context in which they appear and has authorised the contents of those parts of the prospectus for the purposes of section 152(1)(e) of the Financial Services Act 1986.

19. General

- (a) The costs and expenses of, and incidental to, the Proposals payable by the Company are estimated to amount to £0.5m (exclusive of VAT).
- (b) The Company's registrars and receiving agents are Connaught St. Michaels Limited, PO Box 30, CSM House, Victoria Street, Luton, Bedfordshire, LU1 2PZ.
- (c) The New Ordinary Shares will be in registered form and will be issued at 1p being at a premium of 0.99p over the nominal value of such shares of 0.01p.
- (d) Charles Stanley is regulated by The Securities and Futures Authority Limited and is registered in England, registered number 1903304, with its registered office at 25 Luke Street, London, EC2A 4AR.
- (e) The financial information contained in Parts III and IV of this document do not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts for the Company and its subsidiaries for the three accounting periods ended 31st December 1997 have been audited and have been delivered to the Registrar of Companies. The accounts for the two years ended 31st December 1996 were accompanied by unqualified audit reports from Coopers & Lybrand (Chartered Accountants and Registered Auditors), the Company's auditors for those two years. The accounts for the year ended 31st December 1997 received a qualified audit report from Price Waterhouse (Chartered Accountants), the Company's auditors for that year, full details of which are set out in Part III of this document.

20. Documents for inspection

Copies of the following documents may be inspected at the offices of Charles Stanley & Co. Limited, 25 Luke Street, London, EC2A 4AR during normal business hours on any weekday (Saturday and public holidays excepted) until 18 September 1998:

- (a) the audited consolidated accounts of the Company and its subsidiaries for the three years to 31 December 1997 and the unaudited consolidated statement of the Company for the period 1 January to 4 July 1998;
- (b) the rules of the 1994 Share Option Scheme;
- (c) the rules of the 1998 Share Option Scheme
- (d) the Memorandum and amended Articles of Association of the Company;
- (e) the material contracts referred to in paragraph 14 above;
- (f) the contracts for the services of the Directors referred to in paragraph 8 above;
- (g) the consent letters referred to in paragraph 18 above; and
- (h) the irrevocable undertakings by Albion and Stancroft to take up their respective Open Offer entitlements.

Dated: 26 August 1998

RONSON PLC

(Registered in England No. 1907889)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at the offices of Charles Stanley & Company Limited, 25 Luke Street, London EC2A 4AR, on 18 September 1998 at 2.10 p.m. (or as soon thereafter as the Annual General Meeting of the Company to be held at the same place and on the same date shall have concluded or been adjourned) for the purpose of considering and, if thought fit, passing the following resolutions, which in the case of resolutions 1 and 2 will be proposed as special resolutions and in the case of resolutions 3, 4, 5, 6 and 7 will be proposed as ordinary resolutions.

RESOLUTIONS

SPECIAL RESOLUTIONS

1. THAT, subject to and conditional upon the passing of resolutions 2 and 3 below:

- (A) each existing issued and unissued ordinary share of 5p in the capital of the Company be and is hereby sub-divided and reclassified as one ordinary share of 0.01p and one deferred share of 4.99p in the capital of the Company, such deferred shares each having attached to them the rights and privileges and being the subject to the limitations and restrictions set out in Article 3 (B) of the Articles of Association of the Company as amended by resolution 2 below;
- (B) the authorised share capital of the Company as amended pursuant to paragraph (A) above be and is hereby increased from £6,849,201 to £20,000,000 by the creation of 131,382,672,700 new ordinary shares of 0.01p each ranking *pari passu* in all respects with the existing issued and unissued ordinary shares of 0.01p each in the capital of the Company created pursuant to paragraph (A) above and 125,317,342 convertible shares of 0.01p each, such convertible shares having attached to them the rights and privileges and being subject to the limitations and restrictions set out in Article 3(C) of the Articles of Association of the Company as amended by resolution 2 below;
- (C)
 - (i) the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities, as defined in Section 80(2) of the Act, up to a maximum aggregate nominal amount of £147,687.05 PROVIDED THAT this authority shall expire five years from the date of the passing of this Resolution (but shall be capable of revocation or variation within that period by the Company in general meeting) save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired;
 - (ii) the authority conferred by paragraph (C)(i) of this resolution shall be in substitution for any and all previous authorities to allot relevant securities conferred by resolution of the Company pursuant to Section 80 of the Act or otherwise, which are hereby revoked to the extent that they have not been previously utilised, but without prejudice to any allotment, offer or agreement made or entered into prior to the passing of this resolution;
- (D)
 - (i) the Directors be and they are hereby empowered pursuant to Section 95 of the Act for a period expiring at the earlier of 15 months from the date this resolution is passed and the conclusion of the next annual general meeting of the Company to allot equity securities, as defined in Section 94(2) of that Act for cash pursuant to the authority conferred by paragraph (C) of this Resolution (or any authority conferred on the Directors in substitution therefor) as if Section 89(1) of the Act did not apply to such allotment PROVIDED THAT this power shall be limited to:-
 - (a) the allotment of 850,283,822 ordinary shares of 0.01p each in the Company in connection with the placing and open offer by the Company, as described in the prospectus (the "Prospectus") of the Company dated 26 August 1998 (the "Placing and Open Offer");
 - (b) the allotment of 125,317,342 convertible shares of 0.01p each in the Company in connection with the subscription for such convertible shares as described in the Prospectus (the "Subscription");

- (c) the issue of warrants to subscribe for up to 93,988,006 ordinary shares of 0.01p each in the capital of the Company ("Warrants") as described in the Prospectus ("Issue of Warrants");
 - (d) the allotment of equity securities in connection with an offer by way of rights in favour of ordinary shareholders and others entitled to participate in such offer where the equity securities respectively attributable to the interests of ordinary shareholders and others so entitled are, subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange or any other matter whatsoever, proportionate (as nearly as may be) to the respective number of ordinary shares held or deemed to be held by them;
 - (e) the allotment (otherwise than pursuant to sub-paragraphs 3(D)(a)-(d) above) of equity securities up to an aggregate nominal amount of £115,918.54 (representing 5 per cent. of the issued share capital of the Company following the issue of ordinary shares of 0.01p each in the capital of the Company following the Placing and Open Offer, the Subscription and the Issue of Warrants and further PROVIDED THAT the authority pursuant to this resolution 1(D)(e) may only be exercised from time to time by the Directors acting unanimously;
- (ii) the authority conferred by this resolution shall be in substitution for any and all previous powers to allot equity securities as if Section 89(1) of the Act did not apply conferred by resolution of the Company pursuant to Section 95 of the Act or otherwise, which are hereby revoked to the extent that they have not previously been utilised, but without prejudice to any allotment, offer or agreement made or entered into prior to the passing of this Resolution.

2. THAT:-

- (A) The Articles of Association of the Company be altered by deletion of the existing Article 3 and the substitution therefor of the following new Article 3:-

"Capital

3. (A) The authorised share capital of the Company, at the date of adoption of this Article, is £20,000,000 divided into 131,519,659,720 ordinary shares of 0.01p each ("Ordinary Shares"), 136,984,020 deferred shares of 4.99p each ("Deferred Shares") and 125,317,342 convertible shares of 0.01p each ("Convertible Shares").

The special rights, restrictions and provisions applicable to the Deferred Shares and the Convertible Shares are as follows:-

Deferred Shares

- (B) (i) The holders of the Deferred Shares shall not, by virtue of or in respect of their holdings of Deferred Shares, have the right to receive notice of any general meeting of the Company or the right to attend, speak or vote at any general meeting of the Company and shall not be entitled to the payment of any dividend or other distribution. The Deferred Shares shall, on a return of assets on a winding-up or otherwise of the Company, entitle the holder only to the repayment of the nominal amounts paid up on such shares after repayment of the capital paid up on the Ordinary Shares and the Convertible Shares plus the payment of £10,000,000 per Ordinary Share and per Convertible Share. By virtue of the resolution adopting this article, the Company shall have irrevocable authority at any time to appoint any person to execute on behalf of the holders of the Deferred Shares a transfer thereof and/or an agreement to transfer the same to such person as the Company may determine as custodian thereof, and/or to agree to the cancellation of the same, without making payment to the holders of the Deferred Shares, and/or agree to the purchase by the Company of the same (in accordance with the provisions of the Act) without making any payment to or obtaining the sanction of the holders thereof, and, pending such transfer and/or agreement to the transfer and/or cancellation and/or purchase, to retain the certificates relating to such shares. The rights attaching to the Deferred Shares shall not be deemed to be varied, modified or abrogated by the creation, allotment or issue of any shares in the capital of the Company of any class (whether ranking *pari passu* with or in priority to them). The passing of any resolution to cancel all or any of such Deferred Shares or anything done pursuant

thereto in accordance with the provisions of this Article 3(B) shall be deemed not to constitute a variation, modification or abrogation of the rights attaching to the Deferred Shares. The holders of Deferred Shares have no other rights under these Articles save as referred to in this Article 3(B).

- (ii) The Board may at any time resolve to redeem all or any of the Deferred Shares then in issue and such redemption shall be effected in accordance with the following provisions or in such other manner as may be permitted by law (and the Board may effect the redemption of some Deferred Shares in some ways and others in other ways at its sole discretion):
 - (a) all of the Deferred Shares shall be transferred by a person appointed by the Company on behalf of the holder(s) of the Deferred Shares to some other person willing to accept the same with a view to the redemption thereof by the Company at a price not exceeding 1p for all of the Deferred Shares redeemed at any one time;
 - (b) such redemption shall be effected upon the Company giving to the registered holders of such share or shares not less than 28 days' prior notice in writing of its intention to do so fixing a time and place for such redemption;
 - (c) at the time and place so fixed for such redemption, each such registered holder shall be bound to surrender to the Company the certificate for his Deferred Share or Shares which are to be redeemed in order that the same may be cancelled.

(C) Convertible Shares

- (i) The holders of the Convertible Shares shall be entitled *pari passu* with the holders of the Ordinary Shares, to receive any payment of dividends and other distributions out of the profits of the Company available for distribution and resolved to be distributed and to otherwise participate in the profits or reserves of the Company (including, without limitation, the capitalisation of profits or reserves (including any share premium account and capital redemption reserve) of the Company) *pari passu* with the holders of the Ordinary Shares.

- (ii) Capital

On a return of capital (other than on conversion, redemption or repurchase of shares of any class) the assets of the Company available for distribution to shareholders shall be applied first in repaying to the holders of Ordinary Shares and holders of Convertible Shares *pari passu*, the nominal capital paid up or credited as paid up thereon, and second, in paying to the holders of Ordinary Shares and holders of Convertible Shares a fixed premium of the sum of £10,000,000 per Ordinary Share or Convertible Share held by them (as applicable) and in the event that insufficient assets are available, such sum shall be reduced pro-rata. Thereafter, and following payment to the holders of Deferred Shares of the nominal amounts paid up on such shares, the holders of the Convertible Shares shall be entitled to participate *pari passu* with the holders of Ordinary Shares in the surplus assets of the Company available for distribution.

- (iii) Notice and voting at general meetings

The holders of the Convertible Shares shall, by virtue of and in respect of their holdings of Convertible Shares, be entitled *pari passu* with the holders of the Ordinary Shares to receive notice of, and to attend, speak and vote at every general meeting of the Company. Upon any resolution proposed at a general meeting of the Company on a show of hands each holder of Convertible Shares who (being an individual) is present in person or (being a corporation) is present by a representative shall have one vote and on a poll each such holder who is present in person or by proxy or by representative shall have one vote for every fully paid Ordinary Share to which he would be entitled upon the conversion of all of the Convertible Shares held by him at the Conversion Rate, as defined in paragraph (iv) below, in force at the date of such meeting.

- (iv) Conversion

Subject as hereinafter provided the holder of the Convertible Shares shall be entitled at any time and in the manner set out in this paragraph (iv) to convert some or all of the Convertible Shares held by him into fully paid Ordinary Shares on the basis of 1 Ordinary Share for each Convertible Share (such rate, as adjusted from time to time as provided in paragraph (v) being the "Conversion Rate").

The right to convert may be exercised by the holder completing the Notice of Conversion endorsed on the share certificate relating to the Convertible Shares or a notice in such other form as the Directors may from time to time reasonably prescribe in lieu thereof in each case stating the number of Convertible Shares to be converted (in each case, a "Conversion Notice") and delivering the same to the registered office of the Company together with such other evidence (if any) as the Directors may reasonably require to prove the title and claim of the person exercising the right to convert.

A Conversion Notice once given may not be withdrawn without the consent in writing of the Directors.

Conversion of the Convertible Shares to which the Conversion Notice relates ("relevant Convertible Shares") shall be effected by the reclassification of each relevant Convertible Share as one Ordinary Share and in such case, the reclassification shall be effected pursuant to the authority given by the resolution adopting this Article or in such other manner as may be authorised by law and as the Directors shall (in accordance with the following provisions of this Article) from time to time determine for effecting the exercise of the conversion rights attaching to the relevant Convertible Shares.

To enable conversion to be effected, the Directors may elect to redeem the relevant Convertible Shares on any Conversion Date (as defined below) for a sum equal to the nominal capital paid up or credited as paid up thereon out of the profits of the Company which would otherwise be available for distribution. The Convertible Shares shall confer upon the holders thereof the right and obligation, in the event that the Convertible Shares held by them are the subject of a Conversion Notice (or if only some of the Convertible Shares held by them are the subject of a Conversion Notice then that number) and the Directors determine to redeem the same out of such profits as aforesaid, to subscribe for the appropriate number of Ordinary Shares at the applicable Conversion Rate at such premium, if any, as shall represent the amount by which the redemption monies exceed the nominal amount of the Ordinary Shares to which they are so entitled; in any such case, the Conversion Notice given by a holder of Convertible Shares shall be deemed irrevocably to authorise and instruct the Directors to apply the redemption monies payable to such holder in subscribing for such Ordinary Shares at such premium, if any, as aforesaid.

To enable conversion to be effected, the Directors may, subject as herein provided and if duly authorised to allot such Ordinary Shares in accordance with the provisions of the Act and these Articles, determine to redeem the relevant Convertible Shares on any Conversion Date for a sum equal to the nominal capital paid up or credited as paid up thereon out of the proceeds of a fresh issue to the holders of the relevant Convertible Shares of the number of Ordinary Shares into which the relevant Convertible Shares are required to be converted at the applicable Conversion Rate, such issue to be at such premium, if any, as shall represent the amount by which the redemption monies in respect of the relevant Convertible Shares exceed the nominal amount of such Ordinary Shares. In such case, the Conversion Notice given by a holder of relevant Convertible Shares shall be deemed irrevocably:-

- (a) to have appointed any person selected by the Directors as such holder's agent with authority to apply an amount equal to the redemption monies in respect of his relevant shares in subscribing and paying on his behalf for the number of Ordinary Shares into which his relevant Convertible Shares are required to be converted at the Conversion Rate; and
- (b) to have authorised and instructed the Directors following the allotment of such Ordinary Shares to pay the said redemption monies to such agent who shall be entitled to retain the same for his own benefit without being accountable therefor to such holder.

The holders of the Convertible Shares shall have the right and obligation, in the event that such shares are the subject of a Conversion Notice and that the Directors determine to redeem the same out of the proceeds of a fresh issue, to subscribe in accordance with this provision for the appropriate number of Ordinary Shares at the Conversion Rate at such premium (if any) as shall represent the amount by which the redemption monies in respect of the Convertible Shares exceed the total nominal amount of the Ordinary Shares to which they are entitled.

To enable conversion to be effected the Directors may, if duly authorised to allot such Ordinary Shares in accordance with the requirements of the Act and these Articles, determine to redeem the relevant Convertible Shares on the Conversion Date in accordance with the provisions of this paragraph for a sum equal to the nominal capital paid up or credited as paid up thereon (a) in part, up to an amount equal to any applicable stamp or transfer duty in respect of the renunciation hereinafter mentioned, out of the profits of the Company which would otherwise be available for distribution and (b) in part out of the proceeds of a fresh issue of the number of Ordinary Shares into which the Convertible Shares are required to be converted at the Conversion Rate, such issue to be at such premium (if any) as shall represent the excess of the total nominal value of the Convertible Shares over the total nominal value of such Ordinary Shares less an amount equal to any applicable stamp or transfer duty in respect of the renunciation hereinafter mentioned. In the event the Directors shall arrange for the allotment of the appropriate number of Ordinary Shares to some person selected by them on terms that such person will subscribe and pay for such Ordinary Shares at such premium (if any) as aforesaid and renounce the allotment of such Ordinary Shares in favour of the holders of the Convertible Shares (and will also pay any applicable stamp or transfer duty in respect of such renunciation) against payment to such subscriber by the Company of the redemption monies in respect of such shares so redeemed (which redemption monies shall be equal to the nominal amount of the Convertible Shares). The Conversion Notice given by a holder of Convertible Shares redeemed pursuant to this provision shall be deemed to have authorised and instructed the Directors to pay the redemption monies in respect of such shares to the subscriber of the Ordinary Shares renounced in his favour.

Fractions of Ordinary Shares arising on conversion shall not be allotted or renounced to the holders of Convertible Shares otherwise entitled thereto and all entitlements shall be rounded down to the nearest whole number of Ordinary Shares.

The Directors may determine to effect conversion by means of reclassification, consolidation and/or sub-division. In such case, the requisite reclassification, consolidation and sub-division shall be effected pursuant to the authority given by the resolution adopting this Article by consolidating into one share all the Convertible Shares held by any holder and in respect of which a Conversion Notice has been delivered and sub-dividing such consolidated share into that number of shares which is equal to the number of Ordinary Shares to which such holder is entitled pursuant to such Conversion Notice and reclassifying such shares as Ordinary Shares and the balance of such shares (if any) shall be reclassified as deferred shares of 0.01p each which shall rank *pari passu* in all respects with the Deferred Shares.

The Ordinary Shares arising on conversion shall be allotted within 14 days of the Conversion Date. Within 28 days after the Conversion Date, the Company shall forward to each holder of relevant Convertible Shares, at his own risk, free of charge, a definitive certificate for the appropriate number of fully paid Ordinary Shares together, where applicable, with a certificate for the balance of Convertible Shares held by him. Pending the dispatch of definitive share certificates, transfers shall be certified against the Register. The Ordinary Shares arising on conversion shall rank *pari passu* in all respects with the Ordinary Shares then in issue and shall rank in full for all dividends and (unless an adjustment shall have been made in respect thereof under paragraph (v) other distributions declared by the Company in respect of Ordinary Shares on or after the Conversion Date, save that the Ordinary shares so allotted shall not entitle the holder to any dividend or other distribution declared, paid or made on the Ordinary Shares if the record date for such dividend or distribution shall be prior to the Conversion Date.

For the purposes of this paragraph (iv), "Conversion Date" means the date 14 days after the date of the relevant Conversion Notice, provided always that if any Conversion Date would otherwise fall on a Saturday, Sunday or a day which is a public holiday in England, such Conversion Date shall be the date of the next day which is not such a day.

(v) Adjustments

If, whilst any Convertible Shares remain in issue, the Company shall consolidate or sub-divide any Ordinary Shares, or shall enter into any arrangements which may prejudice the rights of the holders of Convertible Shares, the number of Ordinary Shares to be issued

on any subsequent conversion of such Convertible Shares shall be adjusted pro-rata, or (where applicable) the certificate of the Company's Auditors for the time being as to the amount of the adjustment to be made shall be conclusive and binding on all concerned.

(vi) Listing

The Company shall use its reasonable endeavours to procure that the Ordinary Shares arising on Conversion are admitted to the Official List of the London Stock Exchange and to any other stock exchange on which the Company's Ordinary Shares are listed as soon as reasonably practicable following Conversion.

(vii) Transfer

The Convertible Shares shall be fully transferable.

(viii) Miscellaneous

All other terms of these Articles apply to the Convertible Shares *mutatis mutandis* save where such terms conflict with the provisions of this Article 3.

- (B) The existing article 141 in the Articles of Association of the Company be deleted and substituted in full by the following:

Scrip Dividend

141. Subject to the provisions of the Statutes the Directors may, if authorised by an Ordinary Resolution of the Company, offer the holders of Ordinary Shares and holders of Convertible Shares (subject to such exclusions or other arrangements as the Directors may consider necessary or expedient in relation to any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or stock exchange) the right to elect to receive new Ordinary Shares credited as fully paid instead of cash, in respect of all or part of any dividend and in any such case the following provisions shall apply:

- (i) the said Ordinary Resolution may specify a particular dividend or dividends, or may specify all or any dividends declared within a specified period;
- (ii) unless the terms of the said Ordinary Resolution expressly provide, the holders of Ordinary Shares and holders of Convertible Shares shall not be entitled to elect to take the whole amount of any particular dividend in new Ordinary Shares and shall be obliged to take at least such amount thereof on each Ordinary Share or Convertible Share in any calendar year as the Directors shall in their absolute discretion determine as necessary to ensure the status of the Ordinary Shares and Convertible Shares as a wider range investments under the Trustee Investment Act 1961;
- (iii) the basis of allotment to each holder shall be such number of Ordinary Shares and/or Convertible Shares credited as fully paid as have a value as nearly as possible equal to (but not greater than) the amount of the dividend (disregarding any tax credit) which he has elected to forego. For this purpose the "value" of an Ordinary Share and of a Convertible Share shall be deemed to be whichever is the greater of the nominal value and the average of the middle market quotations of an Ordinary Share on the London Stock Exchange as derived from the Daily Official List on the day on which the shares are first quoted "ex" the relevant dividend and the four subsequent dealing days or in such other manner as may be determined by or in accordance with the Ordinary Resolution. A certificate or report by the Auditors as to the amount of the value in respect of any dividend shall be conclusive evidence of that amount;
- (iv) no fraction of an Ordinary Share or a Convertible Share shall be allotted and if any holder would otherwise be entitled to fractions of a share, the Directors may deal with the fractions as they think fit including (without limitation) provisions whereby, in whole or in part, the benefit thereof accrues to the Company and/or under which fractional entitlements are accrued and/or retained and in each case accumulated on behalf of any shareholder and such accruals or retentions are applied to the allotment by way of bonus to or cash subscription on behalf of such shareholder of fully paid Ordinary Shares;
- (v) the Directors, after determining the basis of allotment, shall notify the holders of Ordinary Shares and Convertible Shares in writing of the right of election offered to them in exercising the right of election;

- (vi) the net cash amount of the dividend (or that part of the dividend in respect of which a right of election has been offered) shall not be paid on Ordinary Shares or Convertible Shares in respect of which an election has been duly made (the "elected shares") and instead additional new Ordinary Shares shall be allotted to the holders of the elected shares on the basis of allotment determined as aforesaid. For such purpose the Directors may (a) apply the said net cash amount in subscribing, in full or by instalments, for such number of unissued Ordinary Shares calculated on the basis of allotment determined as aforesaid; or (b) capitalise, out of any amount standing to the credit of any reserves or fund (including the profit and loss account, any share premium account or capital redemption reserve), whether or not the same is available for distribution, as the Directors may determine, a sum equal to the aggregate nominal amount of the additional new Ordinary Shares to be allotted on such basis and apply it in paying up in full the appropriate number of unissued Ordinary Shares for allotment and distribution to the holders of the elected shares on such basis, or (c) give effect to any such election in such other manner as the Directors in their absolute discretion may determine;

(C) The Articles of Association of the Company be further altered by:

- (i) the addition in Article 33 of "which is not fully paid Provided that if the share is listed on the Official List such refusal does not prevent dealings in the shares from taking place on an open and proper basis. They may also refuse to register a transfer of a share" after "any transfer of shares" and the deletion of paragraphs (i) and (ii) and the consequential re-numbering of the following paragraphs of the same Article;
- (ii) the replacement in Article 73(D)(ii) of "28" with "14" and the deletion of "or, if the Default Shares represent one quarter of one per cent. or more of the shares in issue at the date of the Sanction Notice (or, if there are two or more classes in issue, of the issued shares of the class of shares concerned) 14 days from the date of the First Notice";
- (iii) the addition in Article 94(B) of "an interest which (together with any interest of any person connected with him (as defined in s346 of the Act)) is to his knowledge a material interest" and the deletion of the subsequent words "any material interest";
- (iv) the addition in Article 94(C)(i) of "or by any other person" after the words "incurred by him";
- (v) the addition in Articles 94(C)(iv) of "and any persons connected (as defined in section 346 of the Act) with him do not to his knowledge hold an interest in shares (as that term is used in sections 198 to 211 of the Act) representing less than one per cent. of any class of the equity share capital, or the voting rights in such company." after "any other company in which he" and the deletion of the remainder of that paragraph (iv); and
- (vi) the addition at the end of Article 158(B) of "or following one such occasion, reasonable enquiries have failed to establish any new address of the registered holder".

ORDINARY RESOLUTIONS

3. THAT:-

- (A) the creation of Warrants to subscribe for up to 93,988,006 new ordinary shares of 0.01p each in the capital of the Company on the terms and subject to the conditions set out in the draft deed poll, a copy of which is produced to the meeting and initialled for the purposes of identification by the Chairman of the Meeting, subject to such minor amendments as may be approved by the Board of Directors of the Company (the "Board") (or any duly authorised committee thereof), be and is hereby approved and that any member of the Board be and is hereby authorised to execute such deed poll as a deed of the Company;
- (B) the Board (or a duly authorised committee thereof) be and is hereby authorised to issue the Warrants to Victor Kiam.

4. THAT:-

- (i) the entering into by Albion of a guarantee and indemnity with National Westminster Bank plc ("NatWest") dated 6 March 1998 (the "Albion Guarantee") under which Albion guaranteed the obligations of the the Company and each of its principal trading subsidiaries to NatWest in the sum of up to £2,500,000; and
- (ii) the entering into by Victor Kiam of a guarantee with The Provident Bank dated 24 June 1998 (the "Kiam Guarantee") in support of a letter of credit provided by The Provident Bank to NatWest dated 30 June 1998 under which The Provident Bank secured the obligations of the Company and each of its principal trading subsidiaries to NatWest in the sum of up to £1,000,000;
- (iii) the extensions of the Albion Guarantee on 29 June 1998 and 10 August 1998 and the Kiam Guarantee on 10 August 1998;

(copies of the Albion Guarantee, the Kiam Guarantee and the documents extending such guarantees having been produced to the Meeting and signed by the Chairman of the Meeting for the purposes of identification), be and are hereby ratified and approved for all purposes.

5. THAT the arrangements described in the Prospectus relating to:-

- (A) the subscription by Albion ("Albion"), Stancroft ("Stancroft") and Victor Kiam of ordinary shares of 0.01p each in the capital of the Company under the Placing and Open Offer (as described in the Prospectus);
- (B) the Subscription by Albion and Stancroft of convertible shares of 0.01p each in the capital of the Company pursuant to the subscription for convertible shares in the Company (as described in the Propsectus);
- (C) the acquisition of further rights over new ordinary shares of 0.01p each in the capital of the Company upon the exercise of the Warrants;

be and are hereby approved for the purposes of the waiver of the requirement to make a general offer to other shareholders under Rule 9 of the City Code on Takeovers and Mergers.

6. THAT the agreement between the Company, Albion Consortium Fund Limited, and Farzad Rastegar, a copy of which is produced to the meeting and initialled for the purposes of identification by the Chairman of the Meeting, subject to such minor amendments as may be approved by the Board (or a duly authorised committee thereof), be and is thereby approved and that any member of the Board be and is hereby authorised to execute such agreement on behalf of the Company.

7. THAT:-

- (A) the Ronson plc 1998 Executive Share Option Scheme (the "1998 Scheme"), the principal terms of which are summarised in Part VIII of the prospectus to shareholders of the Company dated 26 August 1998 (the "Prospectus") and the draft rules of the 1998 Scheme which are (together with a copy of the Prospectus) produced to the Meeting and signed by the Chairman of the Meeting for the purposes of identification, be and are hereby approved and the 1998 Scheme be adopted as a share option scheme of the Company; and
- (B) the Directors be and are hereby authorised:
 - (i) to establish, operate and administer the 1998 Scheme in accordance with its rules and to do all such acts and things and execute all such documents as they may in their absolute discretion consider necessary or expedient to implement and carry the 1998 Scheme into effect; and
 - (ii) to vote, and be counted in the quorum, at any meeting of the Directors on any matters connected with the 1998 Scheme, notwithstanding that they may be interested in the same (except that no Director

may be counted in the quorum or vote in respect of any matter concerning his own participation in the 1998 Scheme), and any prohibition or restriction on voting by interested Directors contained in the Articles of Association of the Company be and is hereby relaxed to that extent.

By Order of the Board
F C McCarthy
Secretary

Registered office:
Ronson House
Broadfield Park
Brighton Road
Crawley
RH11 9RT

Dated 26 August 1998 ✓

Notes

- (1) A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company. A proxy is not entitled to vote except on a poll.
- (2) To be valid, a duly executed Form of Proxy for use at the meeting together, if appropriate, with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company's registrars, Connaught St. Michaels Limited, PO Box 30, CSM House, Victoria Street, Luton, Bedfordshire, LU1 2PZ at least forty-eight hours before the time appointed for the holding of the meeting or any adjournment thereof.
- (3) Completion and return of a Form of Proxy will not preclude a member from attending the meeting and voting in person if he wishes to do so.
- (4) Resolution 5 will be taken on a poll in accordance with the requirements of the Panel on Takeovers and Mergers and Albion Consortium Fund Limited and Stancroft Trust Limited will not be entitled to vote on that Resolution.