

SEPARATOR SHEET

1934366



PARAMOUNT P. L. C



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

If you have sold or transferred all of your shares (other than ex-rights) in Paramount P.L.C., please forward this document and the accompanying form(s) of proxy to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

A copy of this document, which comprises a prospectus relating to Paramount P.L.C. prepared in accordance with the listing rules made under Section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by Section 149 of that Act, as supplemented by Section 154A of that Act.

The Directors of the Company and the Proposed Directors, whose names appear on page 62, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the London Stock Exchange for the Rights Shares and for the New Ordinary Shares arising by virtue of the Consolidation described in this document to be admitted to the Official List. It is expected that admission will become effective and that dealings in the Rights Shares, nil paid and the New Ordinary Shares, fully paid, will commence on 8 January 1997.

Application has also been made to the London Stock Exchange for the Subscription Shares described in this document to be admitted to the Official List. It is expected that the Subscription Shares will be admitted to listing and that dealings in the Subscription Shares will commence on 5 February 1997.

Each of Beeson Gregory Limited, which is regulated by The Securities and Futures Authority Limited, and Grant Thornton Corporate Finance, which is authorised to conduct investment business by the Institute of Chartered Accountants in England and Wales, is acting exclusively for Paramount P.L.C. in relation to the Rights Issue and other proposals outlined in this document and is not acting for any other person and will not be responsible to any other person for providing protections afforded to customers of Beeson Gregory Limited or of Grant Thornton Corporate Finance, respectively or for advising any such person on the contents of this document or any matter referred to in this document.

Paramount P.L.C.

(Registered in England and Wales No. 1934366)

Rights Issue of up to 2,988,411 Cumulative Second Convertible Redeemable Preference Shares of £1 each at par, Announcement of Audited Preliminary Results for the Year Ended 31 May 1996, Subscription, Board Changes, Capital Reduction, Consolidation of Ordinary Shares and Introduction of Share Option Arrangements

SHARE CAPITAL FOLLOWING THE RIGHTS ISSUE AND BEFORE THE CONSOLIDATION

Number	Authorised			Issued and fully paid	
	Amount			Number	Amount
280,440,000	£7,011,000	in ordinary shares of 2.5 pence each		118,594,525	£2,964,863.125
1,400,000	£1,400,000	in convertible redeemable preference shares of £1 each		1,160,600	£1,160,600
3,111,000	£3,111,000	in cumulative second convertible redeemable preference shares of £1 each		3,110,679	£3,110,679

This document should be retained pending receipt of a Provisional Allotment Letter which, subject to the passing of the relevant resolutions at the Separate General Meeting and the Extraordinary General Meeting, is expected to be despatched on 7 January 1997. On this basis, the latest time for acceptance and payment in full under the Rights Issue is expected to be 3.00pm on 28 January 1997. The procedure for acceptance and payment is set out in Part II and will also be set out in the Provisional Allotment Letter.

Notices of a Separate General Meeting of holders of Ordinary Shares and an Extraordinary General Meeting of the Company to be held on 16 December 1996 and 23 December 1996 respectively are set out at the end of this document and your Board's recommendations are set out on page 14. Forms of proxy for use at the meetings are enclosed which, to be valid, should be returned in accordance with the instructions set out thereon so as to be received not later than 48 hours before the time of the relevant meetings.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	1996/1997
Latest time for receipt of forms of proxy for Separate General Meeting	10.00 am on Saturday, 14 December
Separate General Meeting	10.00 am on Monday, 16 December
Latest time for receipt of forms of proxy for Extraordinary General Meeting	10.00 am on Saturday, 21 December
Extraordinary General Meeting	10.00 am on Monday, 23 December
Record date for the Rights Issue	Friday, 27 December
Provisional Allotment Letters despatched and record date for Consolidation	Tuesday, 7 January
Dealings in the Rights Shares to commence, nil paid and dealings in the New Ordinary Shares arising by virtue of the Consolidation to commence, fully paid	Wednesday, 8 January
Despatch of definitive share certificates for New Ordinary Shares	Wednesday, 15 January
Latest time for splitting, nil paid	3.00 pm on Friday, 24 January
Latest time for acceptance and payment in full and registration of renunciation	3.00 pm on Tuesday, 28 January
Dealings in the Subscription Shares to commence, fully paid	Wednesday, 5 February
Despatch of definitive share certificates for Rights Shares	Wednesday, 5 February
<p>If you have any questions on the procedure for acceptance and payment, you should contact New Issues Department, Independent Registrars Group Limited, Balfour House, 390-398 High Road, Ilford, Essex, IG1 1NQ (telephone number: 0181 478 8241).</p>	

DEFINITIONS

"Act"	the Companies Act 1985, as amended
"Admission"	admission of the Rights Shares, nil paid, to the Official List becoming effective in accordance with the listing rules of the London Stock Exchange
"Bass"	Bass Brewers Limited
"Beeson Gregory"	Beeson Gregory Limited, a member of the London Stock Exchange and regulated by The Securities and Futures Authority Limited
"Paramount" or "the Company"	Paramount P.L.C.
"Burtonwood"	Burtonwood Brewery P.L.C.
"Capital Reduction"	the proposed reduction of the Company's share premium account as described in this document
"City Code"	the City Code on Takeovers and Mergers
"Consolidation"	the proposed consolidation of the ordinary share capital of the Company described in this document
"Cumulative Convertible Preference Shares" or "New Preference Shares"	cumulative second convertible redeemable preference shares of £1 each in the capital of the Company, proposed to be created by EGM Resolution 1
"Directors" or "Board"	the directors of the Company
"EGM Resolutions"	the resolutions to be proposed at the EGM, as set out on pages 75 to 77 of this document
"Executive Directors"	R. D. Price, P. H. Standing and L. E. Jones
"Existing Ordinary Shares"	the existing ordinary shares of 2.5p each in the capital of the Company
"Existing Preference Shares"	the existing convertible redeemable preference shares of £1 each in the capital of the Company
"Existing Share Option Scheme"	The Paramount P.L.C. Executive Share Option Scheme 1989
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of Paramount, to be held on 23 December 1996, notice of which is set out on pages 75 to 77 of this document
"Independent Registrars"	Independent Registrars Group Limited
"London Stock Exchange"	London Stock Exchange Limited
"New Articles"	the proposed new Articles of Association of the Company described in this document
"New Ordinary Shares"	ordinary shares of 25p each in the Company following the Consolidation
"New Share Option Arrangements"	the proposed new share option arrangements, details of which are set out in paragraph 11 of Part V of this document
"NASCIT" or "Underwriter"	North Atlantic Smaller Companies Investment Trust plc
"Official List"	the Official List of the London Stock Exchange

"Ordinary Shares"	ordinary shares in the capital of the Company, whether Existing Ordinary Shares or New Ordinary Shares as the case may allow
"Proposals"	the Rights Issue, the Capital Reduction, the Consolidation, the New Share Option Arrangements, the proposed changes to the Company's board of directors and the proposed adoption of the New Articles as described in this document
"Proposed Directors"	Paul Davies and Christopher Mills, proposed to be appointed directors of the Company
"Provisional Allotment Letter"	the renounceable provisional allotment letter in respect of Rights Shares proposed to be sent to Qualifying Shareholders
"Qualifying Shareholders"	holders of Existing Ordinary Shares and holders of Existing Preference Shares at the Record Date (other than certain overseas shareholders as described in paragraph 5 of Part II of this document)
"Real Inns"	Real Inns Limited, an associate of the Company
"Record Date"	the close of business on 27 December 1996
"Rights Issue"	the proposed offer to Qualifying Shareholders by way of rights of the Rights Shares, on the terms and subject to the conditions set out in this document and in the Provisional Allotment Letter
"Rights Price"	£1 per Rights Share
"Rights Shares"	up to 2,988,411 Cumulative Convertible Preference Shares the subject of the Rights Issue
"Separate General Meeting"	the separate general meeting of holders of Ordinary Shares, to be held on 16 December 1996, notice of which is set out on page 74 of this document
"Separate General Meeting Resolution"	the resolution to be proposed at the Separate General Meeting, as set out on page 74 of this document
"Subscription Agreement"	the conditional subscription agreement between the Company, Paul Davies, Beeson Gregory and NASCIT dated 29 November 1996 relating to the subscription of the Subscription Shares, details of which are set out in paragraph 12(b) of Part V of this document
"Subscription Shares"	the 122,268 New Preference Shares proposed to be subscribed for pursuant to the Subscription Agreement
"Underwriting Agreement"	the conditional underwriting agreement between the Company, the Executive Directors, NASCIT and Beeson Gregory dated 29 November 1996 relating to the Rights Issue, details of which are set out in paragraph 12(a) of Part V of this document

PART I

LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE

Paramount P.L.C.

(Registered in England and Wales No. 1934366)

Directors:

Robert Dennis Price *(Executive Chairman)*
Peter Heaton Standing *(Chief Executive)*
Leonard Edward Jones, FCA *(Finance Director)*
John Malcolm Fryer ACIB *(Non-executive)*
Carole Mary Lawson *(Non-executive)*

Registered and head office:

St. Werburgh Chambers
Chester CH1 2EP

29 November 1996

To the holders of Existing Ordinary Shares and the holders of Existing Preference Shares, and for information only, to the holders of share options under the Existing Share Option Scheme

Dear Sir or Madam

Rights Issue, Announcement of preliminary results, Subscription, Board Changes, Capital Reduction, Consolidation and Introduction of Share Option Arrangements

Introduction

The results for the year ended 31 May 1996 announced today show a loss before tax of approximately £7.4 million. This loss has arisen primarily as a result of a revaluation carried out on the licensed estate of the Company and its associate undertaking. The profit on ordinary activities before tax and exceptional charges was £632,000, but exceptional charges amounted to approximately £8 million. Given these results and in view of the resulting reduced net asset value and high level of gearing the Directors have decided to seek an injection of further funds into the business. The Directors are therefore proposing a Rights Issue of Cumulative Convertible Preference Shares to raise approximately £2.6 million (net of expenses) for the Company. The Rights Issue has been fully underwritten by NASCIT.

The purpose of this circular is to provide you with further details of the Proposals which comprise the following:

- a Rights Issue of up to 2,988,411 Cumulative Convertible Preference Shares on the basis of 1 New Preference Share for every 44 Existing Ordinary Shares held or deemed held
- the New Preference Shares will be convertible into Ordinary Shares on the basis of 8 New Ordinary Shares for every 3 New Preference Shares, representing an effective conversion price, after the consolidation referred to below, of 37.5p per New Ordinary Share (equivalent to 3.75p per Existing Ordinary Share)
- a ten for one consolidation of the Company's Existing Ordinary Shares
- a reduction of the Company's share capital to eliminate the deficit on profit and loss account and assist towards the payment of future dividends

- the appointment of Paul Davies and Christopher Mills as Directors of the Company and our resignation from the Board
- the introduction of the New Share Option Arrangements.

Notices of the Separate General Meeting and the Extraordinary General Meeting, which it is necessary to hold to implement these proposals, are set at the end of this document beginning on page 74.

Audited preliminary results for the year ended 31 May 1996 and current trading

The preliminary audited results for the year ended 31 May 1996 are set out in Part III of this document. Turnover increased 27 per cent. to £7.5 million (1995: £5.9 million) and profit before exceptional items and tax was £632,000 (1995: £913,000). The results for the year and the net assets of the Company have, however, been significantly affected by recent valuations undertaken on the estates of both Paramount and Real Inns, and a critical review of the debt provisioning policies applied on poorly performing houses. These exceptional charges have resulted in a loss for the year after tax of £6,985,000 (1995: profit £811,000) and a reduction in net assets to £5,787,000. A full commentary on the results is set out in the Chief Executive's Statement in Part III.

There have been no significant changes in the level and pattern of trading during the current year. New ordering and accounting systems became operational in June and are proving beneficial in terms of management information and control.

Background to and reasons for the Rights Issue

In the six years since its flotation in August 1990 the Company has expanded considerably. In that time, Paramount has acquired a significant number of public houses and established Real Inns, a joint venture with John Labatt (UK) Limited, now a subsidiary of Enterprise Inns plc, for which it manages additional public houses. The total estate now owned and/or managed by Paramount comprises 220 public houses of which 123 are owned by Paramount and 97 are managed by Paramount on behalf of Real Inns.

The Company is currently constrained by having insufficient funds for investment in its existing estate and your Board has for some time recognised the need to secure further funding to allow such investment. Furthermore, the reduction in the Company's net asset value following the exceptional charges in the year to 31 May 1996 has resulted in gearing rising to an unsatisfactory level. The proceeds of the Rights Issue will provide funds for investment and will increase the Company's capital base and so reduce gearing.

It is proposed, in conjunction with the Rights Issue and subsequently, to introduce a new senior management team to oversee the new investment and implement a strategy of accelerated commercial development of the Company's business.

Board Changes

Upon the Rights Issue becoming unconditional it is intended that Paul Davies be appointed Chief Executive and Christopher Mills be appointed a non-executive director of the Company, initially as Chairman.

Following these initial board changes it is intended to appoint two further directors. First, the Board expect to appoint an additional executive director with a strong background in, and knowledge of, the drinks and leisure sector. Second, it is intended

that a non-executive Chairman with appropriate experience will be appointed within the next six months. On this appointment, Mr. Mills will retire as Chairman but continue as a non-executive director.

Paul Davies, aged 43, has extensive experience in the brewing and pub retailing industry. After 18 years with The Greenalls Group plc, where he became deputy managing director of Greenalls Midlands Limited (comprising Shipstone and Davenports breweries), he was one of the founders and was chief executive of the Centric Pub Company which acquired an estate of over 200 public houses from Bass Plc in March 1992. The pubs were of a similar profile and geographical spread to those within the Paramount estate. In August 1994, Centric was sold to regional brewers Gibbs Mew and Mr. Davies remained there as group deputy managing director of Gibbs Mew until July 1996. As Chief Executive of Paramount, he will be responsible for the implementation of a new business strategy for Paramount and the overall development of its business activities.

Christopher Mills, aged 43, is Chief Executive of NASCIT and a director of J.O. Hambro & Partners Limited which was the winner of the Sunday Telegraph "Investment Management Group of the Year" award in 1993 and 1994. He is an executive director of Growth Financial Services Limited and is a non-executive director of a number of other public and private companies including DS Bancor Inc., OAK Industries Inc., Denison International Limited, Horace Small Apparel PLC and The Personal Number Company PLC.

Upon the Rights Issue becoming unconditional and the appointments of the Proposed Directors becoming effective, we, the current Chairman and Chief Executive of Paramount, will resign as directors and employees of the Company. Our compensation arrangements are summarised in paragraph 6(c) of Part V.

Further details of the Rights Issue

Your Board proposes a Rights Issue to raise approximately £2.6 million for the Company net of expenses. The Company will offer by way of rights up to 2,988,411 new Cumulative Convertible Preference Shares of £1 each at par payable in full on acceptance. The Rights Issue will be made on the basis of

1 New Preference Share for every 44 Existing Ordinary Shares

held or deemed held by Qualifying Shareholders at the Record Date. In accordance with the provisions of the Company's existing Articles of Association, holders of Existing Preference Shares will be provisionally allotted Rights Shares under the terms of the Rights Issue as if their Existing Preference Shares had converted into Existing Ordinary Shares at the Record Date at the applicable current conversion rate of 100 Existing Ordinary Shares for every 9 Existing Preference Shares.

Following the Consolidation, the Cumulative Convertible Preference Shares will be convertible into Ordinary Shares on the basis of 8 New Ordinary Shares for every 3 Cumulative Convertible Preference Shares, representing an effective conversion price of 37.5p per New Ordinary Share (equivalent to 3.75p per Existing Ordinary Share).

The Rights Issue has been fully underwritten by NASCIT, a fully listed investment company, the investment decisions of which are made by J.O. Hambro & Partners Limited and Mr. Mills. Beeson Gregory has agreed to act as sponsor. The Rights Issue and its underwriting is subject to the satisfaction of certain conditions including the passing of necessary shareholders resolutions. The Rights Issue is to be made on and subject to the terms and conditions set out in this document, the Provisional Allotment Letter and the Articles of Association of the Company.

This document gives you the reasons for, and details of, the Rights Issue and related proposals, including why your Board considers the Proposals to be in the best interests of Paramount, and also gives notice of a Separate General Meeting, and an Extraordinary General Meeting, to be held on 16 December 1996 and 23 December 1996 respectively, for the purpose, *inter alia*, of proposing and, if thought fit, passing the resolutions required to effect the Proposals.

Notices of the Separate General Meeting and the Extraordinary General Meeting are set out at the end of this document beginning on page 74.

Proceeds of the Rights Issue

The proposed new management team intends to develop Paramount into a substantial drinks, and drinks-related, leisure business. In recent years, Paramount's estate has suffered from a lack of capital investment resulting in a decline in standards making it difficult to continue to attract high calibre tenants capable of enhancing business. Initially, improvements in the quality of Paramount's existing licensed estate and further improvement of management systems are planned, followed by expansion at the appropriate time into other areas complementary to the core business.

The Rights Issue will raise approximately £2.6 million after expenses which will allow significant capital investment to improve the estate, focusing on those premises considered most capable of giving early returns on capital.

This investment will also allow greater focus on the recruitment, training and active support of tenants, whether new or existing, to further enhance the financial performance of the estate.

Capital Reduction and Dividends

At 31 May 1996, as shown in Part III, Paramount had a deficit on its profit and loss account of £6.189 million. The existence of this deficit currently prevents the payment of dividends. It is the belief of your Directors that the interests of Paramount and its shareholders would best be served by the creation of a new reserve, by a reduction of the Company's share premium account, to eliminate this deficit.

In addition, as part of the Proposals and upon the Rights Issue becoming effective, we will resign as directors and employees of the Company and will receive compensation as set out in paragraph 6(c) of Part V. The Directors also believe that the interests of the Company and its shareholders would best be served by the creation of an additional new reserve of an amount sufficient to cover the aggregate value of the compensation payments. The amount of the proposed reduction of share premium account is therefore £6.445 million, which would create an additional new reserve of £256,000.

The proposed Capital Reduction requires the confirmation of the High Court, and the Court will require that certain undertakings are given in order to ensure that the position of the Company's creditors is not prejudiced. In the absence of the Rights Issue, the required undertakings would include an undertaking that the additional new reserve would not be distributable until (a) such time as all creditors at the date of the reduction have been paid in full or consented or (b) the paid-up share capital (including share premium) is increased by an amount equal to the amount of the new reserve.

Depending on the timing of the application to the Court, and the Court's requirements, it is expected that the additional new reserve will either be distributable from the outset or become distributable when the Rights Issue is completed.

Whilst the compensation will be a charge against the Company's profit and loss account in the current year, the additional new reserve will protect distributable

reserves against the effect of the compensation. In the unlikely event of the Rights Issue not becoming unconditional the compensation will not become payable and the additional new reserve will be subject to the undertaking described above.

You are therefore asked to approve the proposal set out in EGM Resolution 2.

It is not certain whether or when the confirmation of the Court will be obtained but it is hoped that this will be no later than 7 February 1997. The Capital Reduction will become effective when the order of the Court is registered by the Registrar of Companies.

Subject to the confirmation of the Court and to such terms and conditions as it thinks fit, the reserves arising on the Capital Reduction becoming effective will be applied in eliminating the deficit on the profit and loss account of the Company as at 31 May 1996 and will also create the additional new reserve as described above.

The Directors intend, following the Capital Reduction and subject to the availability of distributable reserves in future years (after allowing for New Preference Share dividends), to pursue a dividend policy reflecting growth in earnings and cash flow, whilst maintaining an appropriate level of dividend cover having regard to the development of the Company's activities.

Subscription

NASCIT and Beeson Gregory have conditionally agreed that the underwriting commissions and some of their fee respectively, payable in respect of the Proposals, should be utilised in subscribing for a total of 84,768 Cumulative Convertible Preference Shares at par. Under the same agreement Paul Davies has conditionally agreed to subscribe for a total of 37,500 Cumulative Convertible Preference Shares at par. Further details of this agreement are set out in paragraph 12(b) of Part V.

Consolidation

The Company's Existing Ordinary Shares have recently been trading mainly in the range of 4½p to 7¼p compared with their nominal value of 2.5p. In order to make the Ordinary Shares in the Company more marketable the Directors consider it would be appropriate, subject to the approval of the shareholders, to consolidate the Existing Ordinary Shares into New Ordinary Shares of 25p each.

The Company intends that fractional entitlements to New Ordinary Shares arising in connection with the Consolidation will be rounded up to the nearest whole number of New Ordinary Shares of 25p each by way of an appropriate capitalisation issue being made utilising share premium account. Whilst this is the Company's intention, the Company does reserve the right to round down such fractional entitlements to the nearest whole number of New Ordinary Shares if, in the circumstances having regard to the eventual level of fractional entitlements, the Board resolves it is appropriate to do so. If fractional entitlements are, in the event, rounded down for the purpose of the Consolidation, it is intended that they would be dealt with as permitted by the Company's Articles of Association by being aggregated and the resulting shares being sold for the best price reasonably obtainable. The proceeds of sale would then be distributed in due proportion among the members who would have been entitled to the fractions insofar as any member's entitlement to proceeds would exceed £3.00. However, if (which would be most likely given the current market price of an Existing Ordinary Share and the basis of the Consolidation) a member's entitlement to proceeds in this situation would be equal to or less than £3.00, the proceeds would be retained for the benefit of the Company.

The Consolidation should not affect the total market capitalisation of the Company or the value of individual shareholdings (disregarding adjustments for fractional

entitlements) but will mean that for every 10 Existing Ordinary Shares held at the close of business on 7 January 1997 shareholders will receive instead one New Ordinary Share with a value of 10 times that of each Existing Ordinary Share.

Subject to the approval of shareholders at the Extraordinary General Meeting and the Separate General Meeting and subject to the admission of the New Ordinary Shares to the Official List, your Board expects the Consolidation to become effective and dealings in the New Ordinary Shares to commence at the opening of business on 8 January 1997.

It is expected that definitive certificates in respect of the New Ordinary Shares will be despatched on 15 January 1997. Certificates representing Existing Ordinary Shares will then cease to be valid as documents of title and shareholders will be asked to destroy them when they receive their certificates for New Ordinary Shares. Pending despatch of certificates, transfers of New Ordinary Shares will be certified against the register.

Amendments to the Existing Share Option Scheme

Options over 5,085,000 Existing Ordinary Shares are currently outstanding under the terms of the Existing Share Option Scheme as at 28 November 1996 (the latest practicable date prior to the publication of this document), although the options over 1.9 million Existing Ordinary Shares currently held by us will lapse on our resignations becoming effective. Outstanding options will be appropriately adjusted in accordance with the rules of the Existing Share Option Scheme to take account of the Rights Issue and the Consolidation.

As described in paragraph 10(d) of Part V, the rules of the Existing Share Option Scheme set various limits on the number of unissued shares which may be placed under option. The principal restrictions fix the limits by reference to a percentage of the Company's issued share capital at the relevant time and reflect the guidelines issued by the Association of British Insurers. In addition, there is a limit of 5,775,000 Existing Ordinary Shares (adjusted for the 1994 rights issue). This fixed limit was included in compliance with the then requirements of the listing rules of the London Stock Exchange. The current listing rules contain no such requirement and it is accordingly proposed that, in view of the other limits, this fixed limit be deleted from the rules of the Existing Share Option Scheme. An ordinary resolution will be proposed at the EGM to authorise the Board to make this deletion from the rules of the Existing Share Option Scheme.

Ignoring the effect of any adjustment for the Rights Issue but taking into account the effect of the Consolidation, following deletion of this fixed limit and following our resignations, options could be granted under the Existing Share Option Scheme over 259,000 unissued New Ordinary Shares. The effect of any adjustment for the Rights Issue is likely to be a reduction in the number of New Ordinary Shares available.

The Proposed Directors will not participate in the Existing Share Option Scheme. Any available options under the Existing Share Option Scheme will be granted, with the approval of the Remuneration Committee, only to full-time directors or employees of the Company or any subsidiaries who do not participate in the New Share Option Arrangements.

New Share Option Arrangements

As part of the proposed remuneration package for Paul Davies, the Company has offered, subject to shareholders' approval, to enter into the New Share Option Arrangements and to grant two options to him, each to subscribe for a maximum of 536,103 New Ordinary Shares at 40p per share, representing 2.5 per cent. of the New Ordinary Shares in issue immediately following the Consolidation, assuming also conversion in full of the Existing Preference Shares and the New Preference Shares.

The Company intends to grant two similar options under the New Share Option Arrangements, in each case again to subscribe for a maximum of 536,103 New Ordinary Shares, to an additional executive Director it intends to appoint. The exercise price will be set by the remuneration committee at the time of grant but will not be less than 40p per New Ordinary Share.

Of the two options proposed to be granted under the New Share Option Arrangements to each of Paul Davies and any such new Executive Director, one will only normally first become exercisable on the third anniversary of its grant and the other will only normally become first exercisable on the fifth anniversary of its grant. Neither of the options may be exercised more than seven years after it is granted. The options will only normally be exercisable if the Company's fully diluted adjusted consolidated earnings per New Ordinary Share has equalled or exceeded a fixed target. In calculating adjusted earnings per share, reported profits will be adjusted by applying a notional charge to taxation at the rate of 33 per cent. of profit before tax in place of the actual charge to taxation reported. The target for the option which is normally first exercisable three years after the date of grant will be that adjusted earnings per New Ordinary Share for the financial year ending May 1999 equal or exceed 4.65p per share. This represents an increase of 50 per cent. over the notional fully diluted earnings per share for the year ended 31 May 1996 (assuming the consolidation had taken place) based on the profit on ordinary activities before exceptional items and taxation and assuming a tax charge at the rate of 33 per cent. The target for the option which is normally first exercisable five years after the date of its grant will be that adjusted earnings per New Ordinary Share for the financial year ending May 2001 equal or exceed 4.65p per share increased by the aggregate of the percentage increase in RPI over the two years from May 1999 and four per cent. per annum compound.

The grant of these options under the New Share Option Arrangements will not be taken into account against the limits applicable to the Company under the Existing Share Option Scheme. Whilst the New Share Option Arrangements will not be within the guidelines issued by the Association of British Insurers, your Board believes the New Share Option Arrangements will provide an appropriate level of incentive to proposed new executive directors.

Further details of the New Share Option Arrangements are set out in paragraph 11 of Part V. EGM Resolutions 3 and 4, in addition to approving the appointment of Paul Davies as a Director, will also authorise the Board to enter into the New Share Option Arrangements with Paul Davies and the proposed new executive Director.

Further Details of the Rights Issue

The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not having been terminated in accordance with its terms. The Underwriting Agreement is conditional, *inter alia*, upon the passing of EGM Resolutions 1 to 5 inclusive and the Separate General Meeting Resolution and otherwise as described in paragraph 12(a) of Part V. It is expected that Provisional Allotment Letters will be despatched to Qualifying Shareholders on 7 January 1997. Dealings in the Rights Shares, nil paid, are expected to commence on 8 January 1997. **Assuming this timetable, the latest time and date for acceptance and payment in full for the Rights Shares is 3.00 pm on 28 January 1997.** If you are in any doubt about the procedure for acceptance and payment, you should contact New Issues Department, Independent Registrars Group Limited, Balfour House, 390-398 High Road, Ilford, Essex IG1 1NQ, telephone 0181 478 8241.

Further details of the Rights Issue, including the procedure for acceptance and payment, are contained in Part II of this document.

The attention of overseas shareholders is drawn to paragraph 5 of Part II of this document.

Particulars of the Cumulative Convertible Preference Shares

Full details of the rights attaching to the Cumulative Convertible Preference Shares are contained in Part IV of this document. A summary of the principal rights is set out below:

Dividends and capital

Each Cumulative Convertible Preference Share will carry the right to a cumulative preferential dividend of two per cent. (net) per annum, rising in annual two per cent. increments to a maximum of ten per cent. (net) per annum, payable annually in arrears on 30 November in each year. The first dividend payment will be on 30 November 1997 in respect of the period from the last date for acceptance and payment in full under the Rights Issue to that date and will amount to approximately 1.64 pence per Cumulative Convertible Preference Share, net of the associated tax credit.

Conversion

The Cumulative Convertible Preference Shares will ordinarily be convertible at the option of the holder (subject to the giving of the requisite notice at any time before 16 November 2008) at the end of the month in which notice is given if notice is given more than 14 days before the end of that month (or otherwise at the end of the following month), on the basis of 8 New Ordinary Shares for every 3 New Preference Shares. Additionally, the Company will have the right to require a compulsory conversion of any outstanding Cumulative Convertible Preference Shares on the same terms once the middle market price of a New Ordinary Share, as derived from the Daily Official List, averages more than 75p for a period of at least 30 consecutive business days.

The conversion terms represent an effective conversion price of 37.5 pence per New Ordinary Share resulting on conversion (equivalent to 3.75 pence per Existing Ordinary Share) which compares with the middle market price for one Existing Ordinary Share of 6.25p, as derived from the Daily Official List published on 28 November 1996, being the latest practicable date prior to publication of this document.

Voting

The Cumulative Convertible Preference Shares will confer on their holders voting rights on a poll as if they had converted into New Ordinary Shares. On a show of hands, holders of New Preference Shares will have one vote, and, on a poll, holders will have such number of votes (rounded down to the nearest whole number) as is equal to 8 times the number of fully paid Cumulative Convertible Preference Shares held by them, divided by 3.

Redemption

The Cumulative Convertible Preference Shares will not be redeemable, save to effect conversion and save that any remaining Cumulative Convertible Preference Shares are to be redeemed at par on 30 November 2008.

Taxation

A brief summary of the current United Kingdom tax implications of the Rights Issue for persons resident in the United Kingdom is set out in paragraph 4 of Part II of this document. **If you are in any doubt as to your tax position, you should consult your professional adviser without delay.**

CREST

This is to give you notice, in accordance with the Uncertificated Securities Regulations 1995 ("the Regulations"), that, on 28 November 1996, the Company resolved by

resolutions of the Directors that title to both the Ordinary Shares and, subject to and conditionally upon the increase of the authorised share capital of the Company by their creation and the Rights Issue becoming unconditional, the Cumulative Convertible Preference Shares, in issue or to be issued, may be transferred by means of a relevant system (as defined in the Regulations). As the Existing Preference Shares are currently held by only two shareholders, the Directors did not consider it appropriate to propose any such resolution in respect of the Existing Preference Shares and, accordingly, title to the Existing Preference Shares will not be capable of being transferred by means of such relevant system.

The resolutions of the Directors will become effective immediately prior to CRESTCo Limited granting permission for the shares concerned to be transferred by means of the CREST system.

An explanatory note on CREST is set out at the end of this letter.

Shareholder Meetings

You will find set out at the end of this document, beginning on page 74, notices of a Separate General Meeting and an Extraordinary General Meeting to be held on 16 December 1996 and 23 December 1996 respectively. The Rights Issue is conditional, *inter alia*, on the passing of EGM Resolutions numbered 1 to 5 inclusive, the passing of the Special General Meeting Resolution and upon Admission taking place.

At the EGM, resolutions will be proposed *inter alia* to:

Resolution 1:

- (a) increase the authorised share capital of the Company from £5,150,000 to £11,522,000 by the creation of 3,111,000 Cumulative Convertible Preference Shares and 130,440,000 new Existing Ordinary Shares;
- (b) confer on the Directors the necessary powers and authorities to implement the Rights Issue, the Subscription Agreement and the New Share Option Arrangements;
- (c) adopt the New Articles; and
- (d) effect the Consolidation;

Resolution 2:

approve the Capital Reduction;

Resolutions 3, 4 and 5:

appoint the Proposed Directors as directors of the Company and authorise the Directors to enter into the New Share Option Arrangements; and

Resolution 6:

authorise the amendment of the Existing Share Option Scheme.

At the Separate General Meeting, a resolution will be proposed to sanction any variation, modification or abrogation of the class rights attached to the Ordinary Shares involved in passing or implementing EGM Resolution 1.

Bass and Burtonwood, the holders of the entire issued Existing Preference Share capital, have already sanctioned in writing, any variation, modification or abrogation of the class rights attached to the Existing Preference Shares involved in passing or implementing EGM Resolution 1.

Action to be taken

Reply-paid forms of proxy for use in connection with the Extraordinary General Meeting and the Separate General Meeting are enclosed. Whether or not you intend to be present at the Extraordinary General Meeting or the Separate General Meeting, you are asked to complete and return each form of proxy in accordance with the instructions printed thereon as soon as possible and, in any event, so that it is received not later than 48 hours before the time of the relevant meeting. The completion and return of a form of proxy will not preclude you from attending the relevant meeting and voting in person if you so wish.

Holders of Existing Ordinary Shares are reminded that the necessary quorum for the Separate General Meeting is at least two persons holding or representing by proxy one third of the issued Existing Ordinary Shares. In view of this quorum requirement, holders of Existing Ordinary Shares are particularly requested to complete and return the BLUE form of proxy. In the event that this quorum requirement is not satisfied, Ordinary Shareholders should be aware that it is intended that the meeting shall stand adjourned to 11.00 a.m. on 17 December 1996 being the business day next following the day for which the Separate General Meeting is convened. If at such adjourned meeting the quorum requirement is still not satisfied within half an hour, the members present in person or by proxy shall be a quorum and the business of the Separate General Meeting shall be transacted.

In addition, it is particularly important for you to recognise that in order to be certain that the Proposals will proceed, all of EGM Resolutions numbered 1 to 5 inclusive and the Separate General Meeting Resolution, must be passed.

Further information

Your attention is drawn to the further information contained in the remainder of this document concerning the audited preliminary results of Paramount for the year ended 31 May 1996, details of the Rights Issue and the other Proposals and certain additional information. You are advised to read this document, in its entirety, carefully.

Recommendation

Your Directors, who have received financial advice from Grant Thornton Corporate Finance, believe that the Proposals are fair and reasonable and in the best interests of the Company and its shareholders as a whole. Accordingly your Directors unanimously recommend shareholders to vote in favour of the EGM Resolutions and the Separate General Meeting Resolution as they intend so to do in respect of their own beneficial holdings amounting to 1,107,673 Existing Ordinary Shares (representing approximately 1 per cent. of the issued Existing Ordinary Share capital) and as Bass and Burtonwood have committed to do in respect of their aggregate holdings of 15,202,497 Existing Ordinary Shares and 1,160,600 Existing Preference Shares (representing approximately 12.8 per cent. and 100 per cent. of the issued Existing Ordinary Share capital and issued Existing Preference Share capital respectively).

Yours faithfully,

R.D. Price
Chairman

P.H. Standing
Chief Executive

Explanatory Note on CREST

The above notice on CREST set out on pages 12 and 13 of this document is the notice that the Company is obliged to give to its members, under the Regulations, of the passing of "directors' resolutions" (as defined in the Regulations) in relation to its Ordinary Shares and Cumulative Convertible Preference Shares. The Directors' resolutions will enable the Ordinary Shares and Cumulative Convertible Preference Shares to join CREST. The shares have not become transferable by means of the CREST system merely by virtue of the passing of the Directors' resolutions. The permission of the Operator of the System, CRESTCo Limited must also be given before the shares can become so transferable. This is anticipated to occur by March 1997.

The effect of the Directors' resolutions is to disapply, in relation to the Ordinary Shares and Cumulative Convertible Preference Shares, those provisions of the Company's Articles of Association that are inconsistent with the holding and transfer of those shares in CREST and any provision of the Regulations, as and when the shares concerned enter the CREST system.

PART II

DETAILS OF THE RIGHTS ISSUE

Dates set out in the expected timetable for the Rights Issue and in this Part II assume that Provisional Allotment Letters will be posted on 7 January 1997 following the Underwriting Agreement becoming unconditional in all respects. (Details of the conditions to the Underwriting Agreement are set out in paragraph 12(a) of Part V of this document). If there is a delay, the posting date for Provisional Allotment Letters and subsequent dates in the timetable will change. Any new dates will be announced and will be set out in the Provisional Allotment Letters.

1. Basis of the Rights Issue

Subject to the fulfilment of the conditions referred to in paragraph 2 of this Part II, the Rights Shares will be offered by way of rights to Qualifying Shareholders at the Rights Price payable in cash in full on acceptance by not later than 3.00 pm on 28 January 1997 on the basis of:

1 Cumulative Convertible Preference Share for every 44 Existing Ordinary Shares held or deemed held

at the Record Date and so on in proportion for any greater number of Existing Ordinary Shares then held or deemed held. Holders of Existing Preference Shares will be entitled to participate in the Rights Issue as if they held 100 Existing Ordinary Shares for every 9 Existing Preference Shares held at the Record Date. Fractions of Rights Shares will not be allotted but will be aggregated and sold in the market for the benefit of the Company.

The Rights Shares have not been sold nor are they available in whole or in part in conjunction with the application for listing save under the terms of the Rights Issue.

The attention of overseas shareholders is drawn to paragraph 5 of this Part II.

2. Terms and Conditions of the Rights Issue

The allotment and issue of Rights Shares will be made upon and subject to the terms and conditions set out in this document and in the Provisional Allotment Letters.

The Rights Issue is conditional upon: (a) the Underwriting Agreement becoming unconditional and not having been terminated in accordance with its terms; and (b) Admission taking place no later than 9.00 am on 8 January 1997, (or such later date, being not later than 22 January 1997, as Beeson Gregory, NASCIT and the Company may agree).

Details of the Underwriting Agreement and its conditions are set out in paragraph 12(a) of Part V of this document.

3. Provisional allotment and nil paid rights

It is expected that the Directors will provisionally allot the Rights Shares and despatch Provisional Allotment Letters by post to Qualifying Shareholders (except for certain overseas shareholders as described in paragraph 5 below) on 7 January 1997, following the Underwriting Agreement becoming unconditional. Such Provisional Allotment Letters will set out the holdings of Ordinary Shares and/or deemed holdings of Existing Ordinary Shares (deemed arising on the conversion of Existing Preference Shares) on which your entitlement is based, the aggregate number of Rights Shares provisionally allotted to you and the procedure to be followed if, whether before or after payment of the Rights Price, you wish to dispose of all or part of your entitlement.

(a) *Dealings in nil paid rights*

Dealings on the London Stock Exchange in the provisionally allotted rights to subscribe for Rights Shares are expected to commence, nil paid, on 8 January 1997. If Admission does not occur by 8 January 1997 (or by such later date, being not later than 22 January 1997, as the Company, Beeson Gregory and NASCIT may agree) the provisional allotment of Rights Shares will lapse. A transfer of such rights in nil paid form can be made (save as required by the laws of certain foreign jurisdictions) by delivery of a duly renounced Provisional Allotment Letter without payment of the Rights Price to the transferee up to 3.00 pm on 28 January 1997. If you wish to dispose of all or part of your entitlement to subscribe for Rights Shares you should follow the instructions contained in the Provisional Allotment Letter.

(b) *Acceptance and payment by original allottees and renouncees*

Qualifying Shareholders who wish to take up their entitlement to Rights Shares in whole or in part should send the Provisional Allotment Letter, together with the appropriate remittance in accordance with the instructions printed on the Provisional Allotment Letter, to the Company's Registrars and Receiving Agents, New Issues Department, Independent Registrars Group Limited, Balfour House, 390-398 High Road, Ilford, Essex IG1 1NQ or deliver it by hand only (during normal business hours) to Independent Registrars Group Limited, 5th Floor, 50-60 Gresham Street, London EC2, so as to be received in either case not later than 3.00 pm on 28 January 1997.

Cheques and bankers' drafts, which must be in pounds sterling for the full amount payable should be made payable to "Independent Registrars - A/c Paramount P.L.C." and crossed "Account Payee only". Cheques and bankers' drafts must be drawn in pounds sterling on a bank or building society in the United Kingdom, Channel Islands or Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or CHAPS Company Limited or a member of the Committee of Scottish Clearing Bankers or the Northern Ireland Bankers Association or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of any of those companies, that committee or that association and must bear the appropriate sort code in the top right hand corner. No interest will be allowed on payments made before they are due. Return of the Provisional Allotment Letter with the appropriate remittance will constitute a warranty that the remittance will be honoured on first presentation. The Company may elect to treat acceptances in respect of which cheques are not so honoured as invalid. The Company reserves the right to have cheques presented on receipt and to instruct Independent Registrars to seek special clearance of cheques to allow the Company to obtain value for remittances at the earliest opportunity.

The Company reserves the right at its discretion (but shall not be obliged) to accept applications in respect of which the remittances are received before 3.00 pm on 28 January 1997 from an authorised person (as defined in the Financial Services Act 1986) specifying the Rights Shares concerned and undertaking to lodge the relevant Provisional Allotment Letter duly completed in due course. The Company also reserves the right at its discretion (but shall not be obliged) to treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required. The Company reserves the right, at its discretion (but shall not be obliged), to accept any Provisional Allotment Letter if received with payment in full by Independent Registrars through the post before 10.00 am on 29 January 1997 bearing a legible postmark of not later than 3.00 pm on 28 January 1997.

References to Rights Shares, or rights in respect thereof, having been taken up include rights and Rights Shares which Qualifying Shareholders shall be deemed to have taken up pursuant to the procedures described above.

It is a condition of the Rights Issue that the Company and Independent Registrars (on their behalf) may in their absolute discretion require verification of identity of persons lodging an application, within a reasonable time, to ensure compliance with the Money Laundering Regulations 1993. If satisfactory evidence of identity has not been obtained within a reasonable time the application monies (without interest) will be returned to the bank account upon which the cheque was drawn.

If the value of your application exceeds £10,000 (or is one of a series of linked applications, the aggregate value of which exceeds that amount), the verification of identity requirements of the Money Laundering Regulations 1993 will apply and verification of the identity of the applicant(s) for Rights Shares may be required. If verification of the identity of the applicant(s) is required and satisfactory evidence of identity is not provided, this may result in delays in the return to you of receipted fully paid Provisional Allotment Letter(s) and the despatch of share certificate(s) and may even result in your application being rejected. In order to avoid this, payment should ideally be made by cheque drawn by the original allottee named on the Provisional Allotment Letter. If this is not practicable and you use a cheque drawn by a building society or another third party or a banker's draft, you should:

- (i) write the name and address of the allottee(s) named on the Provisional Allotment Letter on the back of the building society cheque, banker's draft or cheque, and record the date of birth against the name of that allottee on the Provisional Allotment Letter; and
- (ii) if a building society cheque or banker's draft is used, ask the building society or bank to endorse on the cheque the name and account number of the person whose building society or bank account is being debited.

If you deliver your application by hand and you use a cheque drawn by a building society or another third party or a banker's draft, you should ensure that you have with you evidence of identity bearing your photograph (e.g. a valid full passport).

If you are making an application as agent for one or more persons please indicate whether you are a UK or EC regulated person or institution (e.g. bank or broker) and specify your status. If you are not a UK or EC regulated person or institution, then, irrespective of the value of the application, Independent Registrars will be obliged to take reasonable measures to establish the identity of the person or persons on whose behalf the application is being made.

Neither the Company, Beeson Gregory nor NASCIT shall be responsible or have any liability for loss or damage (whether actual or alleged) arising from the election by the Company to treat an acceptance in respect of Rights Shares lodged by any applicant as invalid or to terminate the contract of allotment as a result of Independent Registrars not having received evidence as to the identity of the

The provisional allotment of any Rights Shares not validly taken up in accordance with the procedure for acceptance and payment set out above will be deemed to have been declined and will lapse. NASCIT will, as agent for the Company, attempt to procure subscribers for the Rights Shares not taken up by not later than 3.00 pm on 29 January 1997 if an amount equal to or in excess of the subscription price and the expenses of procuring such subscribers can be obtained. Any net proceeds (after deduction of the subscription price and expenses) will be distributed *pro rata* to the provisional allottees originally entitled thereto, save that no payment will be made of amounts of less than £3.00, which will be retained for the benefit of the Company.

Neither the Company nor NASCIT nor any person responsible for procuring subscribers shall have any liability whatsoever for any loss or damage or alleged loss or damage arising from any insufficiency or alleged insufficiency of any price at which any rights to Rights Shares may be sold or subscribers for Rights Shares may be procured or the timing or terms of any such sale or subscription or the failure to procure such subscribers or the directors not to attempt to prepare such subscribers. To the extent that subscribers cannot be procured on the basis described above by 3.00 pm on 29 January 1997, NASCIT will subscribe or procure subscribers for the Rights Shares in accordance with the terms of the Underwriting Agreement.

(d) *Splitting, transfer, renunciation and registration*

Provisional Allotment Letters may be split in accordance with the instructions therein, nil paid, on lodgement with Independent Registrars, New Issues, Balfour House, 390-398 High Road, Ilford, Essex IG1 1NQ or by hand only to Independent Registrars, 5th Floor, 50-60 Gresham Street, London EC2, in any such case not later than 3.00 pm on 24 January 1997. The Rights Shares comprised in any Provisional Allotment Letter or split Provisional Allotment Letter may be renounced in accordance with the detailed instructions in the Provisional Allotment Letter at any time up to 3.00 pm on 28 January 1997. After that time, Independent Registrars will not register any renunciations and Rights Shares will be freely transferable by an instrument of transfer in the usual or common form. Pending despatch of definitive certificates for the Rights Shares, instruments of transfer will be certified against surrender of fully paid, duly receipted Provisional Allotment Letters or in the case of renunciation, against fully paid renounced Provisional Allotment Letters in the possession of Independent Registrars.

Provisional Allotment Letters will contain detailed instructions with regard to renunciation, registration, transfer and splitting. Any enquiries in connection with Provisional Allotment Letters should be addressed to New Issues Department, Independent Registrars at the address above.

After 3.00 pm on 28 January 1997, the Rights Shares will become registered shares and pending despatch of definitive share certificates, transfers of Rights Shares will be certified against the register. Share certificates are expected to be despatched by post on 5 February 1997 to the registered holder or, in the case of joint holders to the first-named registered holder at that holder's address. After the despatch of share certificates, Provisional Allotment Letters will cease to be valid for any purpose whatsoever.

(e) *Posting*

All documents and remittances will be sent to or by the provisional allottees or their renounees (or their agents as appropriate) at the risk of such person(s).

(f) *Existing Share Option Scheme*

In accordance with the rules of the Existing Share Option Scheme, adjustments may be made to the number of Ordinary Shares over which options have been

granted and/or the price payable on exercise to take account of the terms of the Rights Issue. Such adjustments will be made in accordance with the rules of the Existing Share Option Scheme and will be subject to written confirmation from the auditors of the Company that the adjustments are, in their opinion, fair and reasonable and will also be subject to the approval of the Inland Revenue. The Company will notify each option holder under the Existing Share Option Scheme of the particulars of any adjustment as soon as practicable after determination thereof.

4. Taxation

A summary of the current taxation implications of the Rights Issue is set out below. However you should note that this is intended only as a general guide to the position under current United Kingdom law and Inland Revenue practice. **IF YOU ARE IN ANY DOUBT AS TO YOUR OWN POSITION, YOU SHOULD CONSULT YOUR OWN PROFESSIONAL ADVISER WITHOUT DELAY.** The summary may not apply to certain classes of shareholders such as dealers in securities and those who are citizens of, or resident in, overseas countries.

(a) Capital Gains Tax

It is understood that the Inland Revenue takes the view that, in circumstances such as these, the issue of the Cumulative Convertible Preference Shares under the Rights Issue by the Company to Qualifying Shareholders up to each such Shareholder's maximum entitlement will amount to a reorganisation of the share capital of the Company for the purposes of United Kingdom taxation of capital gains. Accordingly, Cumulative Convertible Preference Shares issued to a Qualifying Shareholder by the Company pursuant to the Rights Issue, together with such Shareholder's existing holding, will be treated for those purposes as the same asset as such existing holding and the price paid by the Qualifying Shareholder for such Cumulative Convertible Preference Shares will be added to the base cost of his existing holding. For the purposes of calculating any indexation allowance the consideration payable by a Qualifying Shareholder pursuant to the Rights Issue will be treated as incurred on the subscription. The capital gains tax position on any future disposal of any shares in the Company will depend upon the Qualifying Shareholder's individual circumstances.

A Qualifying Shareholder selling or otherwise disposing of all or part of the Cumulative Convertible Preference Shares provisionally allotted to him or his rights thereto or allowing his rights to lapse in return for receiving a cash payment in respect thereof may, depending upon his circumstances, incur a liability to tax on any capital gain realised. However, under current Inland Revenue practice, if the proceeds resulting from a lapse or disposal of the rights do not exceed 5 per cent. of the market value (on the date of lapse or disposal) of the shareholder's existing holding, the Inland Revenue may allow the proceeds to be deducted from the acquisition cost of the shareholder's existing holding.

(b) Stamp duty and stamp duty reserve tax

The Company has been advised that (save in relation to depository or clearance services where special rules apply):

- (i) no stamp duty or stamp duty reserve tax will be payable on the issue of Provisional Allotment Letters or split Provisional Allotment Letters;
- (ii) the purchaser of rights to Rights Shares represented by a Provisional Allotment Letter on or before the latest time for registration of renunciation will not generally be liable to stamp duty, but the purchaser will normally be liable to stamp duty reserve tax at the rate of $\frac{1}{2}$ per cent. of the actual

consideration paid. The charge will be borne by the purchaser or transferee and, where a purchase is effected through a stockbroker or other financial intermediary, will normally be accounted for by that person. In other cases, the purchaser of the rights to the Rights Shares represented by the Provisional Allotment Letter is liable to pay the stamp duty reserve tax and must account to the Inland Revenue;

- (iii) the transfer on sale of Rights Shares represented by Provisional Allotment Letters after the last date for registration of renunciation will normally be liable to stamp duty reserve tax at the rate of $\frac{1}{2}$ per cent. of the actual consideration paid and, if an instrument of transfer is executed, also to ad valorem stamp duty at the rate of 50p per £100 (or part thereof) of the actual consideration paid. Payment of the stamp duty cancels the liability to stamp duty reserve tax if not already paid. If stamp duty reserve tax has been paid and stamp duty is paid within six years, the stamp duty reserve tax can be reclaimed within six years;
- (iv) no stamp duty or stamp duty reserve tax will be payable on the registration of the Rights Shares in the names of the original holders of Provisional Allotment Letters or their renounees.

(c) *Corporation and income tax*

This section assumes that the Company does not elect to pay dividends as foreign income dividends ("FIDs"). The tax treatment of a FIDs is different from that outlined below. The Company has no present intention of paying dividends as FIDs.

Under current UK tax legislation, no tax is withheld from dividend payments by the Company, but the Company is required to account to the UK Inland Revenue for advance corporation tax ("ACT") when it pays a dividend. The rate of ACT is currently 25 per cent. of the dividend.

Shareholders resident in the UK for taxation purposes (other than corporate shareholders) will generally be liable to income tax on the aggregate amount of the dividend and a tax credit equal to 25 per cent. of the dividend. For example, on a dividend of £80, the tax credit would be £20 and the individual would be liable to income tax on £100. The tax credit satisfies in full the income tax liability in respect of the dividend for UK resident individual shareholders (and the trustees of certain trusts) who are liable to income tax at the basic or lower rate only. Individual shareholders resident in the UK whose income tax liability is less than the aggregate of the amount of income tax deducted from other income paid to them and the tax credit in respect of dividends are entitled to an appropriate repayment of tax. UK resident individual shareholders who are subject to tax at the higher rate (currently, 40 per cent.) will have to account for additional tax to the extent that the tax at such rate on the aggregate of the dividend and tax credit exceeds the tax credit. For example, on a dividend of £80, such a taxpayer would have to account for additional tax of £20. For this purpose, dividends will be treated as the top slice of the individual's income. UK resident trustees of discretionary trusts liable to account for income tax at a rate of 34 per cent. on the trust's income may also be required to account for additional tax.

UK resident shareholders who are exempt from tax in respect of investment income are entitled to repayment by the UK Inland Revenue of the tax credit in respect of dividends.

UK resident corporate shareholders (other than certain insurance companies) are not liable to corporation tax or income tax in respect of dividends received from the Company, and such dividends are available to frank dividends paid by such companies.

Subject to special provisions which apply to Commonwealth citizens, nationals of states within the European Economic Area, residents of the Isle of Man or the Channel Islands and certain others, shareholders not resident in the UK are generally not entitled to the benefit of a tax credit in respect of any dividend received. Such shareholders are treated as receiving gross income of an amount which, when reduced by income tax at 20 per cent. is equal to the cash dividend. No assessment is made on such shareholders in respect of lower or basic rate income tax and there is normally no liability to the excess of higher rate tax (currently, 40 per cent.) over lower rate tax (currently, 20 per cent.). This additional liability will, however, apply where, exceptionally, the non-resident individual's investment in the Company is managed by a UK investment manager acting, broadly, on non-arm's length terms. Special rules apply to non-UK resident discretionary trusts in receipt of UK dividends.

An entitlement to a payment from the Inland Revenue of a proportion of the tax credit may be available to some non-UK shareholders if there is an appropriate provision granting such entitlement in a double taxation agreement between the country where they are resident and the UK. Non-UK resident shareholders may also be subject to tax on dividend income under any law to which they are subject outside the UK.

The above is only a general outline of the current UK tax treatment of dividends paid by the Company. Any shareholder who is in any doubt about his tax position should consult his professional adviser.

5. Overseas shareholders

(a) General

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

Any person outside the United Kingdom wishing to accept the offer of Rights Shares comprised in a Provisional Allotment Letter must satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territory. Receipt of a Provisional Allotment Letter will not constitute an offer in those jurisdictions in which it would be illegal to make such an offer and in such circumstances a Provisional Allotment Letter will be deemed to have been sent for information only. **Shareholders who have registered addresses outside the United Kingdom or who are citizens or residents of countries other than the United Kingdom should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.**

The Company reserves the right to treat as invalid any acceptance or purported acceptance of the provisional allotment of Rights Shares comprised in, or renunciation or purported renunciation of, a Provisional Allotment Letter which appears to the Company or its agents to have been executed, effected or despatched in a manner which may involve a breach of securities laws of any jurisdiction outside the United Kingdom or which does not include the warranty

referred to in paragraph 5(b) below or which it believes or they believe may violate applicable legal or regulatory requirements or which provides an address for the delivery of definitive share certificates for Rights Shares in any jurisdiction outside the United Kingdom in which it may be unlawful to deliver such share certificates. The Rights Shares provisionally allotted in any such circumstances will be treated as though the rights were not taken up.

In cases where overseas shareholders do not take up Rights Shares provisionally allotted to them, or where provisional allotments are treated as having been declined or invalid, the provisions of paragraph 3(c) above will apply.

(b) *The United States, Canada and Australia*

Neither the Rights Shares nor the Provisional Allotment Letters are being registered under the US Securities Act of 1933, as amended, the laws of any state or the relevant Canadian securities laws and therefore, except in the case of a transaction which is exempt under such legislation, the Rights Shares and the Provisional Allotment Letters may not be directly or indirectly offered, sold, taken up, delivered, renounced, transferred or sold in North America or to or on behalf of any person who is known by the Company to be a North American Person, unless such shareholder satisfies the Company in its discretion by 3.00 pm on 28 January 1997 that an allotment is permitted under an exemption from the securities laws referred to above. If a Provisional Allotment Letter is received by a North American Person or by the agent of a North American Person, he must not seek to take up his entitlement except pursuant to an express agreement with the Company.

For the purposes of this document, "North America" means the United States of America, its territories and possessions, any state of the United States and the District of Columbia and Canada and each province thereof; and "North American Person" means a citizen or resident of North America, including the estate of any such person and any estate or trust the executor or trustee of which is any such person and any corporation, partnership or other entity created or organised under the laws of North America or any constitutional sub-division thereof.

No prospectus in relation to the Rights Shares has been lodged with, or registered by, the Australian Securities Commission. A person may not directly or indirectly offer for subscription or purchase, or issue an invitation to subscribe or buy or sell, Rights Shares or distribute any draft or definitive document in relation to any such offer, invitation or sale, in the Commonwealth of Australia, its territories or possessions ("Australia") or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of such corporation or entity located outside Australia (an "Australian Person")). Neither this document nor the Provisional Allotment Letters will be sent to any shareholder with a registered address in Australia.

Payment under a Provisional Allotment Letter will constitute a warranty that the person entitled to the same is not a North American Person or an Australian Person and an agreement that such person will not offer or sell, directly or indirectly, any of the Rights Shares directly or indirectly in North America or Australia or to or for the account or benefit of a North American Person or an Australian Person. The Company reserves the right to treat as invalid any Provisional Allotment Letter that appears to the Company in its discretion to have been executed in or despatched from North America or Australia or that provides an address in North America or Australia for delivery of definitive share certificates for Rights Shares or which does not make the warranty set out in the Provisional Allotment Letter.

(c) *South Africa*

In order to comply with South African law, Provisional Allotment Letters sent to holders of Ordinary Shares with registered addresses in South Africa will not be renounceable. Such shareholders may require the approval of the South African exchange control authorities if they wish to take up their rights. For the purpose of this paragraph "South Africa" means the Republic of South Africa, its territories and possessions and areas subject to its jurisdiction or under its control.

(d) *General*

All payments must be made in sterling.

In cases where overseas shareholders are unable or fail to take up Rights Shares, the procedure concerning Rights Shares, the provisional allotment of which is deemed to have been declined, described in paragraph 3(c) above, will apply.

PART III

AUDITED PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MAY 1996

The following is the full text of the audited preliminary results of Paramount for the year ended 31 May 1996, which were announced on 29 November 1996:

"Chairman's Statement

I have been Chairman at Paramount since shortly after the Company was established and this will be my last Statement. During the last eight years we have acquired over 120 licensed premises, formed the Real Inns joint venture and obtained a full listing on the London Stock Exchange. However, it has become increasingly apparent to me and to my colleagues that your Company was becoming constrained by lack of funds and that new ways of moving the Company forward had to be found.

I asked Peter Standing to join the Board to help me explore and evaluate ways of achieving this, and his statement sets out in more detail the current situation and the proposed way forward. The write down in assets resulting from the property valuation and the consequent effect on our reserves and our current inability to pay a dividend are matters of great concern to me. However, I am convinced that the fundamental reappraisal we have undertaken will provide the foundation for the new management team to utilise their skills and experience to take the Company forward with confidence.

During the last year or so, we have seen the departure of founder Board members and I would wish to thank them for their loyalty and service. I would also like to take the opportunity of thanking our tenants, our suppliers, our bankers and our advisers for their support. Lastly and most importantly, I would like to express my appreciation to the staff who have worked so tirelessly during a difficult time and to wish them, and the new board of directors, every success in the future.

R. D. Price
Chairman

Chief Executive's Statement

Introduction

This was my first full year as Chief Executive and it has been a challenging year of major change. Your Company has expanded rapidly since its flotation six years ago but is constrained by having insufficient funds to develop further the existing estate. This, in turn, has restricted our ability to increase profit. My task has been to improve systems, strengthen management but, above all, to seek out and evaluate ways of securing further funding to place the Company on a sound footing in order to provide the prospect of sustainable growth in profitability and long-term shareholder value.

Before outlining the substantial operational and management changes, both actual and proposed, I must first review the Company's performance and explain the exceptional write downs which have had a significant impact on the financial results and on the balance sheet. These exceptional charges have resulted in a loss for the year after tax of £6,985,000 (1995: profit £811,000) and a reduction in net assets to £5,787,000.

Performance

Operating profit before exceptional items was slightly down on last year at £1.47 million although turnover increased by 27 per cent. to £7.5 million, largely due to the inclusion of a full year's trading in the pubs acquired from Boddingtons around Christmas 1994. This increase in turnover has not shown through in profitability due to a combination of increased administrative costs associated with the implementation of new systems, described below, and an increasing cost of temporarily managing poorly performing houses. Although the benefits of new systems should start to be seen in the current year, the fundamental challenge facing the Company is the need to upgrade and rationalise the estate.

We have determined a strategy to address this challenge, which I shall describe more fully later. As part of this process, your Board decided to critically review its provisioning policies particularly in relation to those parts of the estate where rationalisation is likely to occur. This has resulted in a substantial increase in bad debt provisions at 31 May 1996, the impact of which is shown as an exceptional item in the profit and loss account.

Paramount estate

The Company has in recent years adopted a policy of carrying its estate in the balance sheet at historic cost, including capital refurbishment, with an examination of the appropriateness of that policy by an annual valuation of a representative sample of the estate, which was first undertaken in May 1995.

In conjunction with the changes in Real Inns described below, and in order to facilitate changes in the financial structure of the Company, your Board recently commissioned a full independent valuation of the Paramount estate. This valuation was undertaken on the basis of the existing use value of trading properties taken as a whole and the open market value of non-operational properties as more fully described in note 2 to the preliminary results. Based on the recommendations of the valuers and taking into account an associated write down of fixtures and fittings, we have reduced the carrying value of our fixed assets by some £4.9 million to approximately £14.0 million. This reduction in value is, in our opinion, a reflection of the depressed market conditions for properties of the nature in our portfolio and has been exacerbated by the financial constraints on our ability to invest in the estate.

Real Inns

Real Inns results for the year were affected adversely by the uncertainty surrounding the future of our original joint venture partner, John Labatt (UK) Ltd. Interbrew had acquired Labatt's worldwide operations in 1995 and it became obvious that they planned to dispose of the Labatt interests in the UK, resulting in an inability to agree any long term plans for Real Inns. However, in June 1996, Interbrew completed the sale of distribution rights for Labatt brands in this country to Whitbread plc and of John Labatt (UK) Limited, our joint venture partner, to Enterprise Inns plc. We are pleased to welcome Enterprise Inns Plc as our new partners in Real Inns and are working with them to develop the strategy for this business.

As part of this change of ownership, we agreed with Enterprise Inns Plc to obtain an independent valuation of the Real Inns estate in order to establish a basis from which to develop the company. This valuation, which was completed on the basis of the existing use value of the individual trading outlets within the estate and the open market value of the non-trading properties, together with a review of the consistency of accounting policies of Paramount and Real Inns, resulted in a decision to write down Paramount's share of the net assets of Real Inns by some £2.0 million. This has been shown as an exceptional item in the Paramount profit and loss account.

Wirral Taverns

Since 1992 Paramount had a management contract with Wirral Taverns Limited to manage its estate of, latterly, some 40 houses which it in turn leased from Whitbread plc. During the year, as a result of a decision by Whitbread plc to sell that and other similar estates, the leases and hence the management contract were terminated. Although we considered the possibility of acquiring these properties your Board concluded that the opportunity did not match our priorities.

Despite the loss of the management contract we were able to avoid, as a result of negotiation with suppliers, any negative effect on discounts through loss of the barrelage volumes attaching to the Wirral Taverns estate. In fact, our discount arrangements remain at a significantly higher level, in real terms, than a year ago. However, there were costs associated with the cessation of our relationships with Wirral Taverns which are shown as an exceptional item in the profit and loss account.

New systems

We devoted considerable time and resources during the year to the development of new systems and procedures resulting in the implementation in June 1996 of integrated order taking, credit control and accounting systems, the benefits from which will commence during the current year.

In addition, Paramount, along with Real Inns, has entered into a distribution agreement with Burtonwood Brewery Plc who will manage stock-holding and distribution on our behalf.

All ordering is now performed by Paramount staff in Chester and orders transferred to Burtonwood by electronic data link. This arrangement gives Paramount direct control over throughput and ordering by the pubs and we combine order taking with credit control. Our nominated drinks suppliers deliver goods in bulk to Burtonwood on enhanced terms which are confidential to ourselves and the individual supplier. New computer systems were introduced to facilitate and manage this new operation as well as to replace the existing financial software. The system should produce tangible improvements in performance and profitability and should fully justify the short term net cost of introduction.

The future

The events of the last year have confirmed the Board's view that operational improvements in themselves would not be sufficient to place your Company on a firm and secure footing on which to build a profitable future. Whilst there have been no significant changes in the level and pattern of trading during the current year, our priority has been to seek out the most satisfactory way of introducing new capital and to ensure that the Company has the experience and support to move forward successfully.

As a result of exploratory discussions with interested parties we considered a variety of proposals, which were carefully evaluated by the Board and its advisors. We have today announced, in conjunction with these results, a series of proposals which include a rights issue and the introduction of a new senior management team. The proposals are set out fully in the circular being sent to shareholders.

These proposals, when implemented, will provide the Company with the capital necessary to allow significant investment to improve the existing estate while also providing fresh impetus and direction from a new management team. The associated capital reduction will assist towards a return to dividends for shareholders.

Conclusion

My period with the Company has certainly been a challenging one. However, we have faced up to the challenges and, although there has been a significant and disappointing impact on the financial position of the Company, I believe we have created a firmer foundation on which to build. The proposals being sent to shareholders today will, in my view, provide the opportunity for the Company to move forward positively and successfully, to the benefit of the shareholders, tenants, employees and suppliers. My proposed successor as chief executive, Paul Davies, brings a wealth of relevant experience to the role and I wish him well.

Finally, I would like to record my appreciation for the support provided by my Board colleagues over the last 18 months or so, and to the other employees of the Company for their efforts on your behalf.

P. H. Standing
Chief Executive

Group profit and loss account
Year ended 31 May 1996

	<i>Before exceptional items 1996 £'000</i>	<i>Exceptional items 1996 £'000</i>	<i>Total 1996 £'000</i>	<i>Total (Restated) 1995 £'000</i>
Turnover	7,485	—	7,485	5,873
Cost of sales	(5,072)	—	(5,072)	(3,859)
Gross profit	2,413	—	2,413	2,014
Administration expenses	(1,236)	(1,115)	(2,351)	(810)
	1,177	(1,115)	62	1,204
Share of profit/(loss) of associated undertaking	295	(2,027)	(1,732)	362
Operating profit/(loss)	1,472	(3,142)	(1,670)	1,566
Disposal of subsidiary undertakings	—	(195)	(195)	—
Property revaluation	—	(4,918)	(4,918)	—
	1,472	(8,255)	(6,783)	1,566
Profit on sales of freehold estate	31	411	442	137
	1,503	(7,844)	(6,341)	1,703
Interest payable and similar charges	(871)	(178)	(1,049)	(790)
Profit/(loss) on ordinary activities before taxation	632	(8,022)	(7,390)	913
Tax on profit/(loss) on ordinary activities	68	337	405	(102)
Profit/(loss) on ordinary activities after taxation	700	(7,685)	(6,985)	811
Equity dividends	(57)	—	(57)	(260)
Retained profit/(loss) for the financial year	643	(7,685)	(7,042)	551
Earnings/(loss) per ordinary share				
Basic	0.59p	(6.50p)	(5.91p)	0.73p
Diluted	0.53p	(5.61p)	(5.08p)	0.64p

Group balance sheet*As at 31 May 1996*

	1996 £'000	1995 £'000
Fixed assets		
Tangible assets	13,964	17,527
Investments	1,573	2,971
	<u>15,537</u>	<u>20,498</u>
Current assets		
Stocks	22	341
Debtors	1,481	3,246
Cash at bank and in hand	26	46
	<u>1,529</u>	<u>3,633</u>
Creditors: amounts falling due within one year	<u>2,284</u>	<u>2,567</u>
Net current (liabilities)/assets	<u>(755)</u>	<u>1,066</u>
Total assets less current liabilities	<u>14,782</u>	<u>21,564</u>
Creditors: amounts falling due after more than one year	8,995	8,700
Provisions for liabilities and charges		
Deferred taxation	—	204
	<u>5,787</u>	<u>12,660</u>
Capital and reserves		
Called up share capital	4,190	4,175
Share premium	7,504	7,481
Merger reserve	242	210
Profit and loss account	(6,149)	794
	<u>5,787</u>	<u>12,660</u>

Company balance sheet*As at 31 May 1996*

	1996 £'000	1995 £'000
Fixed assets		
Tangible assets	13,964	17,527
Investments	1,573	3,296
	<u>15,537</u>	<u>20,823</u>
Current assets		
Stocks	22	341
Debtors	1,481	3,246
Cash at bank and in hand	26	46
	<u>1,529</u>	<u>3,633</u>
Creditors: amounts falling due within one year	2,284	2,638
Net current (liabilities)/assets	<u>(755)</u>	<u>995</u>
Total assets less current liabilities	14,782	21,818
Creditors: amounts falling due after more than one year	8,995	8,700
Provisions for liabilities and charges		
Deferred taxation	—	202
	<u>5,787</u>	<u>12,916</u>
Capital and reserves		
Called up share capital	4,190	4,175
Share premium	7,504	7,481
Merger reserve	282	323
Profit and loss account	(6,189)	937
	<u>5,787</u>	<u>12,916</u>

Cashflow statement*Year ended 31 May 1996*

	1996 £'000	1995 £'000
Net cash inflow/(outflow) from operating activities	<u>1,437</u>	<u>(554)</u>
Returns on investments and servicing of finance		
Interest paid	(828)	(790)
Finance lease interest	(6)	—
Dividends paid	(193)	(272)
Dividends received from associated undertaking	<u>51</u>	<u>337</u>
Net cash outflow from returns on investments and servicing of finance	<u>(976)</u>	<u>(725)</u>
Taxation		
UK corporation tax paid	<u>(1)</u>	<u>(17)</u>
Investing activities		
Investment in associated undertaking	—	(1,273)
Purchase of tangible fixed assets	(588)	(2,689)
Sale of tangible fixed assets	<u>318</u>	<u>239</u>
Net cash outflow from investing activities	<u>(270)</u>	<u>(3,723)</u>
Net cash inflow/(outflow) before financing	<u>190</u>	<u>(5,019)</u>
Financing		
Repayment of borrowings	(300)	(533)
Issue of shares less expenses	—	5,602
Redemption of shares	—	(175)
Capital element of finance lease payments	<u>(41)</u>	<u>—</u>
Net cash (outflow)/inflow from financing	<u>(341)</u>	<u>4,894</u>
Decrease in cash and cash equivalents	<u>(151)</u>	<u>(125)</u>

Notes to the preliminary results*Year ended 31 May 1996***1. Exceptional items**

An analysis of exceptional items charged/(credited) is as follows:

	1996 £'000	1995 £'000
Administration expenses		
Bad debt provisions	750	—
Costs of cessation of Wirral Taverns agreement and similar items	215	—
Termination provisions	150	—
	<u>1,115</u>	<u>—</u>
Disposal of subsidiary undertakings		
Goodwill written off	131	—
Net assets written off	64	—
	<u>195</u>	<u>—</u>
Property valuation		
Permanent diminution in property valuation	4,432	—
Permanent diminution in fixtures and fixtures valuation	421	—
Related provisions	65	—
	<u>4,918</u>	<u>—</u>
Real Inns		
Permanent diminution in property valuation	1,638	—
Additional provisions	389	—
	<u>2,027</u>	<u>—</u>
Profit on estate disposals		
Release of prior year provision	(411)	—
	<u>—</u>	<u>—</u>
Interest		
Write off of financing costs	178	—
	<u>—</u>	<u>—</u>
Tax credit		
Release of prior year provision	(337)	—
	<u>—</u>	<u>—</u>
Total	<u>7,685</u>	<u>—</u>

The Chief Executive's statement accompanying these results provides the background to and reasons for the principal elements of the exceptional items set out above.

2. Tangible fixed assets

<i>Group and company</i>	<i>Investment properties £'000</i>	<i>Freehold properties £'000</i>	<i>Short leasehold properties £'000</i>	<i>Plant equipment and motor vehicles £'000</i>	<i>Total £'000</i>
Cost or valuation					
At 1 June 1995	435	16,624	191	399	17,649
Additions	—	626	—	115	741
Disposals	—	(268)	—	(19)	(287)
Transfer from current assets	—	555	111	—	666
Revaluation	(105)	(4,187)	(182)	(214)	(4,688)
At 31 May 1996	<u>330</u>	<u>13,350</u>	<u>120</u>	<u>281</u>	<u>14,081</u>
Depreciation/ amortisation					
At 1 June 1995	—	—	36	86	122
Charge for the year	—	—	6	83	89
Revaluation	—	—	(42)	(52)	(94)
At 31 May 1996	<u>—</u>	<u>—</u>	<u>—</u>	<u>117</u>	<u>117</u>
Net book value					
At 31 May 1996	<u>330</u>	<u>13,350</u>	<u>120</u>	<u>164</u>	<u>13,964</u>
At 31 May 1995	<u>435</u>	<u>16,624</u>	<u>155</u>	<u>313</u>	<u>17,527</u>

The freehold and leasehold interests in the properties held by the Company (excluding the Real Inns estate) were valued by Chesterton plc, International Property Consultants, as at 30 September 1996 on the basis of existing use value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Properties regarded by the Company as non-operational were valued on the basis of open market value. The valuation figure incorporated in the accounts is the valuation of the portfolio valued as a whole. The sources of information and particular assumptions made in producing the valuation are set out in the valuation report.

3. Fixed asset investments

<i>Group</i>	<i>Share of net assets of associated undertaking £'000</i>	<i>Listed on stock exchange £'000</i>	<i>Total £'000</i>
At 1 June 1995	2,970	1	2,971
Costs written off	(33)	—	(33)
Provision release	411	—	411
Share of losses	(1,776)	—	(1,776)
At 31 May 1996	<u>1,572</u>	<u>1</u>	<u>1,573</u>

Company	<i>Shares in associated undertaking £'000</i>	<i>Shares in subsidiary undertaking £'000</i>	<i>Listed on stock exchange £'000</i>	<i>Total £'000</i>
Cost				
At 1 June 1995	3,231	2,054	1	5,286
Disposals	—	(2,054)	—	(2,054)
At 31 May 1995	<u>3,231</u>	<u>—</u>	<u>1</u>	<u>3,232</u>
Amounts written off				
At 1 June 1995	—	1,990	—	1,990
Disposals	—	(1,990)	—	(1,990)
Provided in year	1,659	—	—	1,659
At 31 May 1996	<u>1,659</u>	<u>—</u>	<u>—</u>	<u>1,659</u>
Net book value				
At 31 May 1996	<u>1,572</u>	<u>—</u>	<u>1</u>	<u>1,573</u>
At 31 May 1995	<u>3,231</u>	<u>64</u>	<u>1</u>	<u>3,296</u>

4. Reserves

	<i>Share premium account £'000</i>	<i>Merger reserve £'000</i>	<i>Profit and loss account £'000</i>
Group			
At 1 June 1995	7,481	210	794
Retained loss for the year	—	—	(7,042)
On allotment of shares	23	—	—
Goodwill write back on disposal of subsidiary undertakings	—	73	58
Transfer	—	(41)	41
At 31 May 1996	<u>7,504</u>	<u>242</u>	<u>(6,149)</u>
Company			
At 1 June 1995	7,481	323	937
Retained loss for the year	—	—	(7,167)
On allotment of shares	23	—	—
Transfer	—	(41)	41
At 31 May 1996	<u>7,504</u>	<u>282</u>	<u>(6,189)</u>

5. Prior year comparatives

The results shown for the year ended 31 May 1995 have been extracted from the full accounts which received an unqualified auditors' report and have been delivered to the Registrar of Companies.

Certain cost categories previously classified as administration expenses have been re-allocated in 1996 to cost of sales to more appropriately reflect the nature of such costs. The 1995 comparatives have been restated to reflect this new basis of classification.

6. Earnings/(loss) per share

Basic earnings/(loss) per ordinary share is based on the relevant profit/(loss) for the financial year and on 118,298,229 ordinary shares of 2.5p each, being the weighted average number of ordinary shares in issue during the year ended 31 May 1996 (1995: 110,410,953).

Fully diluted earnings/(loss) per ordinary share is based on the relevant adjusted profit/(loss) and on 136,994,340 (1995: 129,107,064) ordinary shares of 2.5p each which takes account of all outstanding share options and the conversion of the convertible redeemable preference shares.

7. Annual General Meeting

The Annual General Meeting will be held in December and formal notice will be sent to you shortly.

PART IV

DETAILS OF RIGHTS ATTACHING TO THE CUMULATIVE CONVERTIBLE PREFERENCE SHARES, SUMMARY OF SHARE RIGHTS IN THE COMPANY'S EXISTING ARTICLES OF ASSOCIATION AND PROPOSED AMENDMENTS TO THE COMPANY'S EXISTING ARTICLES OF ASSOCIATION

1. Rights attaching to the Cumulative Convertible Preference Shares

The following are the terms of the New Article 4.1 which will be incorporated in the Company's Articles of Association upon the passing of EGM Resolution 1 and the passing of the Separate General Meeting Resolution and those resolutions becoming effective. This New Article will set out the special rights and restrictions attaching to the Cumulative Convertible Preference Shares as follows:

"4.1 Rights of the Cumulative Convertible Preference Shares"

The special rights, restrictions and provisions applicable to the Cumulative Convertible Preference Shares are set out below:

(1) Income

- (a) Out of the profits available for distribution, the holders of the Cumulative Convertible Preference Shares shall be entitled in priority to any payment of dividend or redemption monies to the holders of any other class of Shares for the time being in issue to be paid a preferential cumulative dividend ("preferential cumulative dividend") on each Cumulative Convertible Preference Share of an amount per annum (if any) which is equal to the relevant percentage (if any) as set out in the table below of the Issue Price of such Share (such percentage being exclusive of any associated tax credit available to shareholders). The preferential cumulative dividend shall be payable yearly on 30 November in each year (or, if any such date shall not be a business day, on the first business day following such date without any interest or payment in respect of such delay) (such dates of payment being "Fixed Dividend Dates") in respect of the year ending on those respective dates, save that the first preferential cumulative dividend shall be paid on a pro rata basis on 30 November 1997 in respect of the period from such date as the Board determines as a term of issue of Cumulative Convertible Preference Shares is the date of issue thereof as described in any prospectus relating to such issue ("Relevant Issue Date") up to 30 November 1997 (both dates inclusive):

<i>Fixed Dividend Date</i>	<i>Relevant Percentage</i>
30 November 1997	2
30 November 1998	4
30 November 1999	6
30 November 2000	8
30 November 2001	10
Each subsequent Fixed Dividend Date	10

- (b) Payments of preferential cumulative dividends shall be made to holders of the Cumulative Convertible Preference Shares on the Register at any date and at any time on such date selected by the Board up to 42 days prior to the relevant Fixed Dividend Date.
- (c) Subject to the provisions of sub-paragraph 4.1(1)(e) below, every preferential cumulative dividend payable by the Company on any Fixed Dividend Date shall on that Fixed Dividend Date *ipso facto* and without any resolution of the Directors or of the Company in general meeting become a debt due from the Company and immediately payable.
- (d) The Company shall take all necessary steps reasonably and lawfully available to it towards ensuring that its profits available for distribution are sufficient to enable the lawful and prompt declaration and payment of the preferential cumulative dividends, such steps to include (without limitation) the distribution to the Company by its subsidiaries of the whole or part of the profits available for distribution from time to time of such subsidiaries but subject always to the provisions of Parts V and VIII of the Act and provided also that the Company shall not be obliged, for the purpose of ascertaining whether it has at any time profits available for distribution, to prepare accounts complying with the requirements of the Statutes as to

accounts for such purpose other than to a date which is its accounting reference date for the time being, or a date falling six calendar months after the expiry of any accounting reference period.

- (e) In the event that, whether by reason of a lack of distributable profits or otherwise by reason of any principle of law or otherwise, the Company is unable to pay in full on a Fixed Dividend Date any preferential cumulative dividend which would otherwise be required to be paid pursuant to the foregoing provisions of this Article 4.1(1) on that Fixed Dividend Date ("the relevant dividend") then the following provisions shall apply:
- (i) on that Fixed Dividend Date the Company shall pay to the relevant holders entitled to the relevant dividend the maximum sum (if any) which can then consistently with the availability of sufficient distributable profits and any such principle of law and otherwise be properly paid by the Company, and the balance thereof shall become a debt due from the Company and payable in each case in accordance with, but only in accordance with, sub-paragraph (ii) below;
 - (ii) as soon as the Company is able to pay, without restriction by reason of a lack of distributable profits or otherwise, the whole or any part of the balance of the relevant dividend for the time being remaining outstanding (until the relevant dividend shall have been paid in full) the Company shall pay to the holders of the Cumulative Convertible Preference Shares on any date and at any time as the Board may determine within the 42 days before that payment, such whole or part of the balance as can then, consistent with any such availability of distributable profits and principle of law or otherwise be properly paid by the Company; and
 - (iii) interest shall accrue from day to day on the balance for the time being of the relevant dividend which remains unpaid at the rate of 4 per cent. per annum above the base lending rate of The Governor and Company of the Bank of Scotland for the time being and shall become due as a debt of the Company, and be paid, at the same time as the amount to which it relates is paid.
- (f) The holders of the Convertible Preference Shares shall not be entitled to any further right of participation in the profits of the Company.

(2) Capital

- (a) Subject to sub-paragraphs (4)(h) and (7)(a)(iv) and (7)(c) and (8) of this Article 4.1 and to sub-paragraphs (3)(i) and (6)(d) and (8) of Article 4.2 which shall prevail, on a return of capital on winding-up or (other than on conversion or redemption or purchase of any Share or as otherwise provided in paragraph (4) of this Article 4.1 or in paragraph (3) of Article 4.2) otherwise, the assets of the Company available for distribution to its members shall, subject to any provision made under section 719 of the Act, be applied:
- (i) first, in paying all unpaid arrears, accruals and deficiencies (if any and including any interest accrued in accordance with Article 4.1(1)) of any preferential cumulative dividend on the Cumulative Convertible Preference Shares irrespective of whether or not such dividend has been declared or earned or become due and payable, to be calculated down to and including the date of commencement of the winding-up (in the case of a winding-up) or the date the return of capital is made (in any other case);
 - (ii) second, in repaying the amount paid up on the Cumulative Convertible Preference Shares;
 - (iii) third, in repaying the amount paid up on the Convertible Preference Shares;
 - (iv) fourth, in repaying the amount paid up on the Ordinary Shares;
 - (v) fifth:
 - (A) on a return of capital on winding-up commenced on or before the Last Conversion Date (as defined in sub-paragraph (3)(b) of Article 4.2) or (other than on conversion or redemption or purchase of any Share or as otherwise provided in paragraph (4) of this Article 4.1 or in paragraph (3) of Article 4.2) otherwise occurring on or before the said Last Conversion Date, in distributing the balance, if any, rateably amongst the holders of the Convertible Preference Shares, the Cumulative Convertible Preference Shares and the Ordinary Shares according to the amounts paid up on such shares on the basis that each Convertible Preference Share is treated as if

converted at the Conversion Rate (as defined in Article 4.2) into fully paid Ordinary Shares immediately before the commencement of the winding-up or the return of capital (as the case may be);

- (B) on a return of capital on winding-up commenced after the said Last Conversion Date or (other than as provided in sub-paragraph (2)(a)(v)(A) above) otherwise occurring after that date:
 - (aa) in distributing rateably amongst the holders of the Ordinary Shares according to the amounts paid up on their respective holdings of such Shares up to a maximum amount of £5,000 per Share;
 - (bb) thereafter, in distributing the balance of such assets rateably amongst the holders of the Cumulative Convertible Preference Shares, the Convertible Preference Shares and the Ordinary Shares *pari passu* as if they constituted one class of share in proportion to the amount paid up on the Cumulative Convertible Preference Shares, Convertible Preference Shares and Ordinary Shares respectively held by them.
- (b) The provisions of this paragraph (2) of Article 4.1 are without prejudice to any other provisions of these Articles as to the conversion, redemption or purchase of Shares.
- (c) The holders of the Cumulative Convertible Preference Shares and the holders of the Convertible Preference Shares shall not be entitled to any further or other right of participation in the assets of the Company.
- (d) A reduction of capital involving no payment to shareholders shall not be treated as a return of capital for the purposes of this paragraph (2) of this Article 4.1.

(3) Voting and General Meetings

The holders of the Cumulative Convertible Preference Shares shall, by virtue of and in respect of their holdings of Cumulative Convertible Preference Shares, have the right to receive notice of, attend and speak either in person or by proxy at any general meeting of the Company and any holder of Cumulative Convertible Preference Shares who (being an individual) is present in person or by proxy or which (being a corporation) is present by duly authorised representative or by proxy, shall on a show of hands have one vote and, on a poll, shall have the CCP Relevant Number of Votes. "The CCP Relevant Number of Votes" shall be such number of votes as is for the time being equal to the number of Ordinary Shares (rounded down to the nearest whole number if necessary) for the time being arising on the conversion of the fully-paid Cumulative Convertible Preference Shares registered in the name of the relevant holder.

(4) Conversion

- (a) Subject as hereinafter provided (including, without limitation, sub-paragraph (4)(o) of this Article 4.1), each holder of Cumulative Convertible Preference Shares shall be entitled at the times and in the manner set out in this Article 4.1 (and subject to the provisions of this paragraph (4) of this Article 4.1) to convert all or (subject as provided below) any of his Cumulative Convertible Preference Shares into fully paid Ordinary Shares on the basis of 8 Ordinary Shares of 25p each for every £3.00 of nominal value of Cumulative Convertible Preference Shares so converted and so in proportion for any greater or smaller nominal amount of Cumulative Convertible Preference Shares (such rate as adjusted from time to time as provided in this Article 4.1, being herein called "the Cumulative Conversion Rate") provided that if a Cumulative Conversion Notice (as described below in this Article 4.1) is given in respect of part only of a holding of Cumulative Convertible Preference Shares, treating holdings of the same holder or joint holders in certificated form and uncertificated form as separate holdings unless the Board otherwise determines, so that there would immediately following the conversion remain a number of Cumulative Convertible Preference Shares in that holding smaller than that required to convert into one Ordinary Share at the Cumulative Conversion Rate then applicable, all the Cumulative Convertible Preference Shares in that holding shall be converted notwithstanding the figure inserted in the Cumulative Conversion Notice.
- (b) For the purposes of this Article 4.1 a "Cumulative Conversion Date" shall be any day, after the day ("Proposed Consolidation Day") on which the consolidation of ordinary share capital in the Company proposed to be effected by the resolution that adopted these Articles of Association becomes or ceases to become capable of being effective but on or prior to the Cumulative

Redemption Date (as defined in paragraph (6) of this Article 4.1), which is (i) in the case where a Cumulative Conversion Notice as described below is served in any month and more than 14 days before the end of that month, the last day of that month; (ii) in the case where a Cumulative Conversion Notice as described below is served in any month but not more than 14 days before the end of that month, the last day of the next following month but in any event provided that, if any Cumulative Conversion Date would otherwise fall on a day which is not a business day, such Cumulative Conversion Date shall be the first business day following such day.

- (c) The right for holders to convert Cumulative Convertible Preference Shares on any Cumulative Conversion Date that are in certificated form shall be exercisable by completing the notice of conversion endorsed on the share certificate relating to the Cumulative Convertible Preference Shares to be converted and/or a notice in such other form as may from time to time be prescribed by the Board ("a Cumulative Conversion Notice") and delivering the said share certificate (or an indemnity in respect thereof in a form reasonably satisfactory to the Company) to the Registrars together with such other evidence (if any) as the Board may reasonably require to prove the title of the person exercising such right to convert. In relation to any Cumulative Convertible Preference Shares that are in uncertificated form, the right for holders to convert shall be exercisable on any Cumulative Conversion Date by there being received as described below an Uncertificated Cumulative Conversion Notice. An "Uncertificated Cumulative Conversion Notice" shall mean a properly authenticated dematerialised instruction and/or other instruction or notification received by the Company or by such person as it may require in such form and subject to such terms and conditions (if any) as may from time to time and for the time being be prescribed or approved by the Board (subject always to the facilities and requirements of the relevant system concerned) and such instruction or notification shall then also be a "Cumulative Conversion Notice" for the purposes of these Articles. In addition the Directors may determine when any such properly authenticated dematerialised instruction and/or other such instruction or notification is to be treated as received by the Company or such other person as it may require for these purposes (subject always to the facilities and requirements of the relevant system concerned). Without prejudice to the generality of the foregoing, the effect of any such properly authenticated dematerialised instruction and/or any other such instruction or notification may be to divest the holder of the Cumulative Convertible Preference Shares concerned of the power to transfer such Cumulative Convertible Preference Shares to another person. A Cumulative Conversion Notice once given may not be withdrawn without the consent in writing of the Company. The Company shall in each financial year at the time of preliminary announcement of its financial results for the preceding financial year give to the holders of the Cumulative Convertible Preference Shares notice in writing reminding them of their right to convert and stating the applicable Cumulative Conversion Rate. Such notice shall give the name and address of the Registrars and shall also state, or be accompanied by a copy of, the relevant form(s) of Cumulative Conversion Notice.

Whether any Cumulative Convertible Preference Shares are in certificated or uncertificated form shall be determined by reference to the Registrars as at the close of business on the day of service of the relevant Cumulative Conversion Notice or such other time as the Directors may, (subject always to the facilities and requirements of the relevant system concerned) in their absolute discretion, determine.

- (d) Subject to the Statutes and subject as hereinafter provided including, without limitation, sub-paragraph (4)(o) of this Article 4.1, if the Average Market Price Per Share (as defined below) in respect of any period of 30 or more consecutive business days (ignoring non-business days) ("Average Market Price Period") is greater than 75 pence, the Company shall be entitled to require that there are converted all of the Cumulative Convertible Preference Shares for the time being in issue into fully paid Ordinary Shares at the Cumulative Conversion Rate. The right to require conversion described in this sub-paragraph (d) shall be exercisable by the Company serving notice ("Company Cumulative Conversion Notice") on the holder(s) of Cumulative Convertible Preference Shares at any time within 30 business days following the last day of any Average Market Price Period, (the date that is 28 days following the date on which such Company Cumulative Conversion Notice is served being a "Company Cumulative Conversion Date"), such notice to contain details of the applicable Cumulative Conversion Rate. Before the Company Cumulative Conversion Date each holder of Cumulative Convertible Preference Shares that are in certificated form shall deliver to the Registrars his share certificate(s) (or an indemnity in respect thereof in a form reasonably satisfactory to the Company). "Average Market Price Per Share", in respect of any period, means the average of the middle market prices for an Ordinary Share derived from the Daily Official List of the London Stock Exchange published during that period.

- (e) Conversion of any such Cumulative Convertible Preference Shares as are due to be converted as aforesaid on any Cumulative Conversion Date or Company Cumulative Conversion Date ("Relevant Cumulative Shares") shall be effected in such manner as the Board shall from time to time determine in accordance with the following provisions of this Article 4.1 or otherwise as may be authorised by law and provided that non-compliance by a holder of Cumulative Convertible Preference Shares with the provisions of sub-paragraph (4)(d) of this Article 4.1 shall not prevent or restrict or delay any such conversion.
- (f) The Board may, subject as herein provided, elect to effect the conversion by redeeming at par the Relevant Cumulative Shares (or any of them) on any Cumulative Conversion Date or any Company Cumulative Conversion Date (as the case may be) out of the profits of the Company which would otherwise be available for distribution to the holders of any class of Shares. The Cumulative Convertible Preference Shares shall confer upon the holders thereof the right and the obligation (in the event that Cumulative Convertible Preference Shares held by them respectively become Relevant Cumulative Shares and the Board determines to redeem the same at par out of the profits as aforesaid) to subscribe for the appropriate number of Ordinary Shares at the applicable Cumulative 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 the holders are so entitled. In any such case, any Cumulative Conversion Notice or Company Cumulative Conversion Notice shall be deemed automatically to irrevocably authorise and instruct the Board to apply the redemption monies payable to any holder of Relevant Cumulative Shares in subscribing for such Ordinary Shares at such premium (if any) as aforesaid.
- (g) The Board may, subject as herein provided, elect to effect the conversion by redeeming at par the Relevant Cumulative Shares (or any of them) on any Cumulative Conversion Date or Company Cumulative Conversion Date (as the case may be) out of the proceeds of a fresh issue of Ordinary Shares. The Cumulative Convertible Preference Shares shall confer upon the holders thereof the right and the obligation (in the event that Cumulative Convertible Preference Shares held by them respectively become Relevant Cumulative Shares and the Board determines to redeem the same at par out of the proceeds of a fresh issue as aforesaid) to subscribe, and the holders shall be deemed irrevocably to authorise and instruct the Secretary of the Company (or any other person appointed for the purpose by the Board) to subscribe as agent on the holder's behalf for the appropriate number of Ordinary Shares (which authority shall include the right to borrow money) at the applicable Cumulative 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 the holders are so entitled. In any such case, the Cumulative Conversion Notice or the Company Cumulative Conversion Notice (as the case may be) shall automatically authorise and instruct the Board to apply the redemption monies payable to any holder of Relevant Cumulative Shares in payment to his said agent who shall be entitled to retain the same for his own benefit without being accountable therefor to such holder.

In relation to any Relevant Cumulative Shares that are to be redeemed in accordance with sub-paragraphs (4)(f) or (g) of this Article 4.1 and that are in uncertificated form, the Directors shall be entitled in their absolute discretion to determine the procedure for the redemption of such Relevant Cumulative Shares (subject always to the facilities and requirements of the relevant system concerned). Without prejudice to the generality of the foregoing, the procedures for the redemption of any such Relevant Convertible Shares may involve or include the sending by the Company or by any person on its behalf of an issuer-instruction to the Operator of the relevant system concerned requesting or requiring the deletion of any computer-based entries in the relevant system concerned that relate to the holding of the Relevant Cumulative Shares, and/or the Company may, if the Board so determine (by notice in writing to the holder concerned) require the holder of the Relevant Cumulative Shares to change the form of the Relevant Cumulative Shares from uncertificated to certificated form prior to the Cumulative Conversion Date or Company Cumulative Conversion Date concerned.

- (h) The Board may determine to effect the conversion by means of consolidation and sub-division. In such case the requisite consolidation and sub-division shall be effected pursuant to the authority given by the passing in general meeting of the resolution creating the Cumulative Convertible Preference Shares, by consolidating into one share all the Relevant Cumulative Shares as at any Cumulative Conversion Date or Company Cumulative Conversion Date (as the case may be) held by any holder or joint holders (treating holdings of the same holder or holders in certificated form and uncertificated form as separate holdings, unless the Board otherwise determines) and sub-dividing such consolidated share into shares of (subject to sub-paragraph (4)(o) of this Article 4.1) 25p each (or such other amount as may be appropriate as a result of any consolidation, sub-division, repayment or reduction of capital or other event

occurring after the Proposed Consolidation Day giving rise to an adjustment or change of the nominal amount of the Ordinary Shares) of which, subject as aforesaid, 8 Shares of 25p each for each £3.00 nominal amount of the consolidated share (or such other number of shares as may be appropriate as a result of any adjustment pursuant to the provisions of sub-paragraphs (4)(n), (o) or (p) of this Article 4.1) shall be Ordinary Shares (and so in proportion for any other nominal amount of the consolidated share), fractional entitlements being disregarded, and the balance of such shares (including any fractions) shall be further sub-divided into Non-Voting Cumulative Deferred Shares of 0.5p each which shall be in certificated form (unless the Board otherwise determines) and which shall have the following rights and be subject to the following restrictions:

- (i) on a return of capital on winding-up or otherwise, the Non-Voting Cumulative Deferred Shares shall entitle the holders thereof only to the repayment of the amounts paid up on such shares after payment in respect of each Cumulative Convertible Preference Share, each Convertible Redeemable Preference Share and each Ordinary Share of the capital paid up on such share and £100,000;
- (ii) the Non-Voting Cumulative Deferred Shares shall not entitle the holders thereof to the payment of any dividend or other distribution; and
- (iii) the Non-Voting Cumulative Deferred Shares shall not entitle the holders thereof to receive notice of or attend or vote at any general meeting of the Company.

Such conversion shall be deemed to confer irrevocable authority on the Company at any time thereafter to appoint any person to execute on behalf of the holders of such Non-Voting Cumulative Deferred Shares (a transfer(s) thereof (and/or (an) agreement(s) to transfer the same) to such person as the Company may determine as custodian thereof and/or to purchase the same (in accordance with the provisions of the Statutes) in any such case for not more than 1p in aggregate for all the Non-Voting Cumulative Deferred Shares without obtaining the sanction of the holder or holders thereof and pending such transfer and/or purchase to retain the certificate(s) for such Non-Voting Cumulative Deferred Shares. The Company may at its option at any time after the creation of any Non-Voting Cumulative Deferred Shares redeem all of such shares then in issue, at an aggregate price of 1p for all the Non-Voting Cumulative Deferred Shares redeemed, at any time upon giving the registered holders of such shares not less than 28 days previous notice in writing of its intention so to do, fixing a time and place for the redemption, and at the time and place so fixed such registered holders shall be bound to surrender to the Company the certificates for the Non-Voting Cumulative Deferred Shares in order that the same may be cancelled and the Company shall pay the redemption monies to one of such registered holders to be selected by lot.

- (i) In addition to the right to determine to effect conversion by means of consolidation and sub-division in accordance with the provisions of sub-paragraph (4)(h) of this Article 4.1, the Board may consolidate into one share all the Relevant Cumulative Shares at any Cumulative Conversion Date or any Company Cumulative Conversion Date (as the case may be) held by any holder or joint holders (treating holdings of the same holder or joint holders in certificated form and uncertificated form as separate holdings, unless the Board otherwise determines) and sub-divide such Share into the appropriate number of Ordinary Shares, in which event such Ordinary Shares, notwithstanding that they may have a different nominal amount from other Ordinary Shares then in issue, shall form a uniform class with all such shares and shall notwithstanding any contrary provision herein for all purposes and in all respects (including without limitation entitlement to dividends or other distributions, participation in offers, voting rights, rights on a liquidation or return of capital) rank *pari passu* with all other fully paid Ordinary Shares, for which purpose the nominal amount of each Ordinary Share arising on such consolidation and sub-division shall, subject to sub-paragraph (4)(o) of this Article 4.1, be deemed to be 25p (or such other amount as may be appropriate as a result of any sub-division, consolidation, repayment or reduction of capital or other event occurring after the Proposed Consolidation Day giving rise to an adjustment of the nominal amount of the Ordinary Shares) and the nominal amount of the Ordinary Shares into which the Relevant Cumulative Shares shall convert shall (subject to adjustment as aforesaid) also (subject as aforesaid) be deemed to be 25p.
- (j) Any fractions of Ordinary Shares arising on conversion shall be aggregated and sold on behalf of such holders of Relevant Cumulative Shares at the best price reasonably obtainable and the net proceeds of sale shall be distributed pro rata among such holders unless in respect of any holding of Relevant Cumulative Shares the amount to be distributed would be less than £3 in which case such amount shall not be so distributed but shall be retained for the benefit of the Company. If any fraction of an Ordinary Share would remain notwithstanding such aggregation the same shall be sub-divided into the appropriate number of Non-Voting

Cumulative Deferred Shares and the Board shall have full power to determine the holding to which such fractions relate. For the purpose of implementing the provisions of this sub-paragraph (4)(j), the Board may appoint some person to execute transfers or renunciations on behalf of persons otherwise entitled to any such fractions and generally may make all arrangements which appear to it necessary or appropriate for the settlement and disposal of fractional entitlements.

- (k) The preferential cumulative dividend on any Cumulative Convertible Preference Shares converted (whatever the manner of conversion) shall cease to accrue immediately following the Fixed Dividend Date immediately preceding the relevant Cumulative Conversion Date or Company Cumulative Conversion Date (as the case may be). The Ordinary Shares arising on such conversion shall rank *pari passu* in all respects with the Ordinary Shares then in issue and shall entitle the holder to all dividends and (unless an adjustment shall have been made in respect thereof under the subsequent provisions of this Article 4.1) other distributions payable on the Ordinary Shares in respect of the financial year of the Company in which the relevant Cumulative Conversion Date or Company Cumulative Conversion Date (as the case may be) falls and which are declared after the relevant Cumulative Conversion Date or Company Cumulative Conversion Date (as the case may be) but not for any earlier declared dividends or distributions or any dividends or distributions in respect of any earlier financial year. Unless the Board otherwise determines, or unless the Regulations and/or the Rules of the relevant system concerned otherwise require, the Ordinary Shares arising on conversion of any Cumulative Convertible Preference Shares shall be or shall be issued (as appropriate) in uncertificated form (where the Cumulative Preference Shares converted were in uncertificated form) or in certificated form (where the Cumulative Convertible Preference Shares converted were in certificated form).
- (l) Allotments of Ordinary Shares arising from conversion (whatever the manner of conversion) shall be effected on the Cumulative Conversion Date or Company Cumulative Conversion Date (as the case may be). Subject to compliance with sub-paragraph (4)(d) of this Article 4.1 (if relevant), within 28 days after the Cumulative Conversion Date or Company Cumulative Conversion Date (as the case may be), the Company shall send to each holder of Relevant Cumulative Shares, by post at his own risk, free of charge, a definitive certificate for the appropriate number of fully-paid Ordinary Shares arising on conversion that are in certificated form and a new certificate for any unconverted Cumulative Convertible Preference Shares as at the relevant time as determined in accordance with paragraph (4)(c) of this Article 4.1 are Certificated Shares comprised in any certificates surrendered by him. Insofar as the Ordinary Shares to be issued on conversion and the unconverted Cumulative Convertible Preference Shares (if any) are Uncertificated Shares at such relevant time, the Company shall evidence the entitlement of each such holder of Relevant Cumulative Shares to the appropriate number of fully-paid Ordinary Shares and unconverted Cumulative Convertible Preference Shares in accordance with the rules and regulations of a relevant system for the time being.
- (m) If immediately after any Cumulative Conversion Date 75 per cent. or more of the Cumulative Convertible Preference Shares in issue immediately following the Relevant Issue Date shall have been converted, the Company shall be entitled by not more than eight weeks' nor less than four weeks' notice in writing given at any time after such Cumulative Conversion Date to require all holders of the remaining Cumulative Convertible Preference Shares to convert, on the expiry of such notice but with effect from the Cumulative Conversion Date immediately preceding the date on which the said notice was given, the whole of their holdings of such shares into Ordinary Shares at the Cumulative Conversion Rate then applicable. Upon the expiry of such notice the holders of the Cumulative Convertible Preference Shares shall be treated as having exercised the right to convert in respect thereof as at the preceding Cumulative Conversion Date and the provisions of this Article 4.1 relating to conversion shall apply *mutatis mutandis* as if such Cumulative Convertible Preference Shares were the only Relevant Cumulative Shares as at the Cumulative Conversion Date immediately preceding the date upon which the said notice was given.
- (n) If the Company shall make any issue (subject as provided below and otherwise than in connection with the consolidation referred to in the following sub-paragraph (o)) of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account and capital redemption reserve) to holders of Ordinary Shares, the nominal amount of ordinary share capital to be issued on any subsequent conversion of Cumulative Convertible Preference Shares shall be increased pro rata and, if any doubt shall arise the certificate of the Auditors (save in the event of manifest error) shall be conclusive and binding on all concerned. No adjustment shall be made in the event of the issue of shares by way of capitalisation of profits or reserves at the option of a holder of Ordinary Shares in lieu of cash dividends.

- (o) If the consolidation of ordinary share capital in the Company proposed to be effected by the resolution that adopted these Articles of Association does not become, or ceases to become capable of being, effective:
- (i) the reference in sub-paragraph (4)(a) of this Article 4.1 to the basis of conversion being 8 Ordinary Shares of 25p each for every £3.00 nominal amount of Cumulative Convertible Preference Shares converted shall for all purposes be a reference to 80 Ordinary Shares of 2.5p each for every £3.00 of such nominal amount;
 - (ii) the reference in sub-paragraph (4)(d) of this Article 4.1 to £1.00 shall for all purposes be a reference to 10p;
 - (iii) the reference in sub-paragraph (4)(h) of this Article 4.1 to 25p shall for all purposes be a reference to 2.5p;
 - (iv) the reference in sub-paragraph (4)(h) of this Article 4.1 to 8 shares for each £3.00 nominal amount shall for all purposes be a reference to 80 shares for each £3.00 nominal amount; and
 - (v) the references in sub-paragraph (4)(i) of this Article 4.1 to 25p shall for all purposes be references to 2.5p.

Additionally, if the Ordinary Shares shall be consolidated (otherwise than as is proposed by the resolution referred to above), or sub-divided the nominal amount of ordinary share capital to be issued on any subsequent conversion of Cumulative Convertible Preference Shares shall be reduced or increased pro rata and if any doubt shall arise, the certificate of the Auditors (save in the event of manifest error) shall be conclusive and binding on all concerned.

- (p) If the Company shall make any Capital Distribution (otherwise than in connection with the consolidation referred to in the preceding sub-paragraph (o)) to the holders of Ordinary Shares, then at the option of the Company either:
- (i) the nominal amount of ordinary share capital to be issued on any subsequent conversion of Cumulative Convertible Shares shall be increased by an amount determined to be fair and reasonable by the Auditors whose certificate, which shall contain full and clear details of the basis on which such amount has been determined, and (save in the event of manifest error) shall be conclusive and binding on all concerned; or
 - (ii) the holders of Cumulative Convertible Preference Shares shall be entitled to participate in such Capital Distribution as if all outstanding Cumulative Convertible Preference Shares were deemed to have been converted into Ordinary Shares immediately prior to the making of such Capital Distribution at the Cumulative Conversion Rate then applicable.
- (q) Except if arrangements are or have been offered to the holders of the Cumulative Convertible Preference Shares which ensure that the rights of such holders would not be prejudiced, the Company will procure that no scheme of compromise or arrangement within the meaning of section 425 of the Act affecting the Ordinary Shares shall become effective unless the holders of Cumulative Convertible Preference Shares shall be parties to the scheme and unless the scheme shall be approved by such holders in the manner prescribed by the said section.
- (r) Except in pursuance of a scheme approved in accordance with sub-paragraph (q) above, the Company shall not give effect to any arrangement pursuant to which the Company is to make a distribution of the kind described in section 213 of the Income and Corporation Taxes Act 1988 whereby shares are to be issued or transferred to all or any of the holders of Ordinary Shares unless it shall have given to the holders of Cumulative Convertible Preference Shares prior notice thereof, such notice to be given not less than 42 days prior to the proposed record date in respect of the entitlement of holders of Ordinary Shares to receive the shares to be issued or transferred. Within a period of 30 days after the date of such notice, each holder of Cumulative Convertible Preference Shares may give notice in writing to the Company exercising his conversion rights (such exercise to be effective on the last day of the said period of 30 days which day shall be deemed to be a Cumulative Conversion Date) in respect of the whole or such part of his holding as he may in such notice specify at the Cumulative Conversion Rate applicable on the Cumulative Conversion Date.
- (s) The Company shall use its best endeavours to ensure that all the Ordinary Shares arising on conversion are admitted to the Official List of the Stock Exchange at the relevant Cumulative Conversion Date or Company Conversion Date (as the case may be) or at the earliest practicable date thereafter.

- (t) Notice of any such adjustment as is referred to in sub-paragraphs (4)(n), (o) or (p) above shall be sent to the holders of the Cumulative Convertible Preference Shares within 28 days of the occurrence of such event.

(5) Purchase

Subject to the provisions of the Act, the Company may at any time purchase Cumulative Convertible Preference Shares (i) in the market, or (ii) by tender available alike to all holders of Cumulative Convertible Preference Shares, or (iii) by private treaty, in any such case at a price (exclusive of all costs of purchase) which, if the Cumulative Convertible Preference Shares are at the relevant time listed on the Stock Exchange, shall not exceed the average of the middle-market quotations therefor based on the Stock Exchange Daily Official List during the period of 10 business days immediately prior to the date of such purchase, or, in the case of a purchase on the Stock Exchange, at the market price thereof provided that such market price is not more than 5 per cent. above such average, and if not then so listed, shall not exceed 110 per cent. of the nominal value of a Cumulative Convertible Preference Share, but not otherwise, and upon such other terms and conditions as the Company may think fit. The Company may exercise its rights and powers of purchase as regards any Cumulative Convertible Preference Shares and any Further Cumulative Convertible Preference Shares which may be issued pursuant to paragraph (8) of this Article 4.1 (not being a series which is identical and forms a single series with the Cumulative Convertible Preference Shares) at its sole discretion and without obligation to maintain the ratio between the nominal amounts for the time being outstanding of any series. On the purchase of any Cumulative Convertible Preference Shares, the nominal amount of such shares comprised in the capital of the Company may thereafter be divided into, and reclassified as, Ordinary Shares without any further resolution or consent.

(6) Redemption

- (a) The Company shall subject to sub-paragraph (6)(d) of this Article 4.1 and to the Statutes and subject as hereinafter provided, redeem on 30 November 2008 or, if such day is not a business day, on the next following business day ("the Cumulative Redemption Date") each Cumulative Convertible Preference Share then in issue and unconverted. The Company shall give to the holders of any Cumulative Convertible Preference Shares to be redeemed not less than 28 days' nor more than 35 days' prior written notice of the Cumulative Redemption Date:—
- (i) In relation to any Cumulative Convertible Preference Shares that are to be redeemed and that, on the Cumulative Redemption Date, are in certificated form, any such notice shall specify the place at which the certificates for such shares are to be presented for redemption and upon such date each of the holders of the Shares concerned shall be bound to deliver to the Company at such place the certificates for those Shares in order that the same may be cancelled and upon such delivery the Company shall pay to each holder the amount due in respect of such redemption.
- (ii) In relation to any Cumulative Convertible Preference Shares that are to be redeemed and that, on the Cumulative Redemption Date, are in uncertificated form:
- (A) the Board shall be entitled in their absolute discretion to determine the procedures for the redemption of such Cumulative Convertible Preference Shares (subject always to the facilities and requirements of the relevant system concerned);
- (B) upon being satisfied that such procedures have been effected, the Company shall pay to the holder of the Cumulative Convertible Preference Shares concerned the amount due in respect of redemption of such Cumulative Convertible Preference Shares.
- (b) Without prejudice to the generality of sub-paragraphs (6)(a)(ii)(A) and (B) above, but subject as set out in such paragraphs:
- (aa) the procedures for the redemption of any Cumulative Convertible Preference Shares may involve or include the sending by the Company or by any person on its behalf of an issuer-instruction to the Operator of the relevant system concerned requesting or requiring the deletion of any computer-based entries in the relevant system concerned that relate to the holding of the Cumulative Convertible Preference Shares concerned; and/or
- (bb) the Company may, if the Board so determines (by notice in writing to the holder concerned, which notice may be included in the notice of redemption concerned) require the holder of the Cumulative Convertible Preference Shares concerned to change the

form of the Cumulative Convertible Preference Shares from uncertificated to certificated form prior to the Cumulative Redemption Date (in which case sub-paragraph (6)(a)(i) above shall then apply as regards the procedure for redemption).

- (c) There shall be paid on each Cumulative Convertible Preference Share to be redeemed under this paragraph (6) the amount paid up on such share together with all unpaid arrears, accrual and deficiencies (if any) of any preferential cumulative dividend in respect of such share irrespective of whether or not such dividend has been declared or earned or become payable, to be calculated down to and including the Cumulative Redemption Date.
 - (d) If on the Cumulative Redemption Date the Company is permitted by the Statutes to redeem some only or none of the Cumulative Convertible Preference Shares required on that date to be redeemed the Company shall redeem such number thereof as may lawfully be redeemed at such time (the Shares to be redeemed to be selected so that, as nearly as may be, each of the holders who is due to have Cumulative Convertible Preference Shares redeemed on that date has redeemed an equal proportion of the Shares of which he is the holder and which are to be so redeemed, unless there is obtained the consent or sanction on the part of the holders of the Cumulative Convertible Preference Shares as is required for a variation of the rights attached to such shares) and shall redeem as soon thereafter as it shall lawfully be permitted so to do the remaining number which would otherwise then have fallen to be redeemed in accordance with this paragraph (6) (and pending such redemption the amount payable to the relevant holder upon such redemption shall not be regarded as a sum due from the Company to such holder and accordingly the Company shall not be regarded for any purpose as being in default in relation to any indebtedness). The Company shall not be obliged, for the purpose of ascertaining whether it has at any time become lawful to redeem Cumulative Convertible Preference Shares which could not lawfully be redeemed on the due date, to prepare accounts complying with the requirements of the Statutes as to accounts prepared for such purpose other than to a date which is its accounting reference date for the time being, or a date falling six calendar months after expiry of any accounting reference period. If at any time it becomes lawful for the Company to redeem some (but not all) of the Cumulative Convertible Preference Shares which could not lawfully be redeemed on the due date, the shares to be redeemed shall be selected and, as between holders whose shares were to be redeemed on the Cumulative Redemption Date so that each of such holders, as nearly as may be, has redeemed an equal proportion of the shares held by him and due to be redeemed on that date, unless there is obtained the consent or sanction on the part of the holders of the Cumulative Convertible Preference Shares as is required for a variation of the rights attached to such shares).
 - (e) Upon the redemption of any Cumulative Convertible Preference Shares pursuant to this paragraph (6) the Board may consolidate and/or sub-divide and/or convert the authorised redeemed preference share capital existing as a consequence of such redemption into Ordinary Shares.
- (7) Other provisions
- (a) So long as any Cumulative Convertible Preference Shares remain capable of conversion into Ordinary Shares, then, save in connection with the consolidation referred to in sub-paragraph (6)(o) of this Article 4.1, unless there is obtained such consent or sanction on the part of the holders of the Cumulative Convertible Preference Shares as would be required for any variation of the rights attached to such shares:
 - (i) no shares shall be allotted pursuant to a capitalisation of profits or reserves except Ordinary Shares: (A) credited as fully paid, to the holders of Ordinary Shares and, if there be other Equity Share Capital in issue (other than the Cumulative Convertible Preference Shares, the Convertible Preference Shares, any Further Cumulative Convertible Preference Shares or Further Convertible Preference Shares which may be issued pursuant to paragraph (8) of this Article 4.1 or Article 4.2 or any Non-Voting Cumulative Deferred Shares or any Non-Voting Deferred Shares for the time being in issue which shall have resulted from conversion of any Cumulative Convertible Preference Share or any Convertible Preference Share), except Shares issued credited as fully paid to the holders of such other Equity Share Capital (other than such Shares as provided above) as part of the same capitalisation as is effected to the holders of the Ordinary Shares and upon any such allotment the Cumulative Conversion Rate shall be adjusted as appropriate under sub-paragraph (4)(n) of this Article 4.1 provided that no such allotment shall be made if, as a result thereof, the aggregate nominal amount of the Ordinary Shares into which any Cumulative Convertible Preference Shares may be converted would exceed the aggregate nominal amount of such Cumulative Convertible Preference Shares; or (B) paid up in full out of distributable profits or reserves and issued in lieu of a cash dividend;

- (ii) if any offer or invitation by way of rights or otherwise (not being either an offer of Shares by way of capitalisation of profits or reserves at the option of a holder of Ordinary Shares in lieu of cash dividends or an offer or invitation to which the provisions of sub-paragraph (7)(b) of this Article 4.1 apply) is made to the holders of any Equity Share Capital including Convertible Preference Shares of the Company, either:

- (aa) the Company shall make or, so far as it is able, procure that there is made a like offer at the same time to each holder of Cumulative Convertible Preference Shares as if his conversion rights had been exercisable and exercised in full on the record date for such offer or invitation on the basis of the Cumulative Conversion Rate then applicable. (For the purpose of giving effect to this provision, no resolution for the disapplication of section 89(1) of the Act (or any provision replacing the same) shall be deemed to abrogate, vary or modify the rights attaching to the Cumulative Convertible Preference Shares and in the case of any offer or invitation as aforesaid being made the entitlement of the holders of the Cumulative Convertible Preference Shares to participate therein as set out in this paragraph shall be to the exclusion of any other entitlement or right to which such holders might otherwise be entitled); or
- (bb) otherwise where the offer or invitation is of Ordinary Shares the aggregate nominal amount of Ordinary Shares to be issued for every £1 nominal amount of Cumulative Convertible Preference Shares subsequently converted (and so in proportion for any other nominal amount of Cumulative Convertible Preference Shares) shall be increased by an amount (expressed in pence) equal to:

$$\frac{X \times Z}{Y + Z}$$

where:

X is the nominal amount (expressed in pence) of the new Ordinary Shares (including fractions thereof) which would have been offered to a holder of £1 nominal amount of Cumulative Convertible Preference Shares had his conversion rights been exercisable and exercised in full immediately before the record date for such offer at the Cumulative Conversion Rate then applicable;

Y is the price (expressed in pence) payable for each such new Ordinary Share under the terms of the offer; and

Z is the average of the means of the quotations (expressed in pence) published in the The Stock Exchange's Daily Official List or (as the case may be if the Ordinary Shares are not listed on the Official List) in the nearest equivalent publication showing the market prices for an Ordinary Share) of one such new Ordinary Share, nil paid, during the first five business days on which such new Ordinary Shares are dealt in on the Relevant Exchange (as defined in sub-paragraph (3)(n) of Article 4.2), nil paid. Such adjustment shall become effective as at the record date for the offer;

- (iii) no Equity Share Capital (other than the Cumulative Convertible Preference Shares, Convertible Redeemable Preference Shares, Further Cumulative Convertible Preference Shares or Further Convertible Preference Shares as provided in paragraph (8) of this Article 4.1 or paragraph (8) of Article 4.2 or any Non-Voting Cumulative Deferred Shares or any Non-Voting Deferred Shares for the time being in issue which shall have resulted from conversion of any Cumulative Convertible Preference Share or any Convertible Preference Share), shall be in issue which is not in all respects uniform with the Ordinary Shares in issue on the date of the passing of the resolution to create the Cumulative Convertible Preference Shares (or, following such consolidation referred to in sub-paragraph (6)(o) of this Article 4.1, the Ordinary Shares in issue immediately following such consolidation), save:

- (aa) as to the date from which such capital shall rank for dividend; or
- (bb) for Equity Share Capital issued pursuant to an employees' share scheme within the meaning of Section 743 of the Act; or
- (cc) for Equity Share Capital which has attached thereto rights as to dividend, capital and voting which in no respect are more favourable than those attached to the Ordinary Shares in issue at the date of the passing of such resolution; or
- (dd) for Equity Share Capital issued pursuant to an offer or invitation which is extended to the holders of the Cumulative Convertible Preference Shares and the Convertible

Preference Shares pursuant to the immediately preceding sub-paragraph (7)(a)(ii) of this Article 4.1 and to sub-paragraph (6)(b) of Article 4.2;

- (iv) no resolution shall be passed whereby the rights attaching to the Ordinary Shares shall be modified, varied or abrogated or for reducing the Company's share capital or any uncalled liability thereon or the amount for the time being standing to the credit of its share premium account or capital redemption reserve in any manner for which the consent of the Court will be required or whereby the purchase by the Company of any shares in its capital (other than the Cumulative Convertible Preference Shares and any Non-Voting Cumulative Deferred Shares arising pursuant to sub-paragraphs (4)(h) or (j) of this Article 4.1 and/or other than the Convertible Preference Shares and any Non-Voting Deferred Shares arising pursuant to Article 4.2) is sanctioned;
 - (v) the Company will not do any act or thing resulting in an adjustment to the Cumulative Conversion Rate if in consequence such rate would involve the issue of Ordinary Shares at a discount.
- (b) If an offer is made to the holders of Ordinary Shares (or all such shareholders other than the offeror and/or any associate of the offeror as defined in section 430E(4) of the Act) to acquire the whole or any part of the issued ordinary share capital of the Company or if any person proposes a scheme with regard to such acquisition, and the Company becomes aware that the right to cast more than fifty per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such associates as aforesaid, the Company shall give written notice to all holders of Cumulative Convertible Preference Shares of such vesting (or prospective vesting) within 14 days of its becoming so aware. Each such holder shall be entitled within the period of six weeks from the date of such notice (but not thereafter) to convert some or all of his Cumulative Convertible Preference Shares into fully paid Ordinary Shares on the basis set out in paragraph (4) of this Article 4.1 but on the basis that:
- (i) the Cumulative Conversion Date in respect of any particular Cumulative Convertible Preference Shares shall be the day on which the Company shall have received a duly completed Cumulative Conversion Notice; and
 - (ii) the preferential cumulative dividend in respect of the relevant Cumulative Convertible Preference Shares shall accrue up to the Fixed Dividend Date last preceding such Cumulative Conversion Date but shall cease to accrue thereafter and the Ordinary Shares arising on conversion shall not rank for any dividend or distribution paid or made before or by reference to any record date before the Cumulative Conversion Date. Subject as aforesaid, the provisions as to conversion in paragraph (4) of this Article 4.1 shall apply *mutatis mutandis* to such conversion.
- (c) If the Company is wound up, the Company shall forthwith give notice thereof in writing to all holders of Cumulative Convertible Preference Shares. Each holder of Cumulative Convertible Preference Shares in respect of all or any of his Cumulative Convertible Preference Shares shall be entitled within six weeks after the date of the resolution to wind up the Company or (as the case may be) after the date of the Order of the Court for such winding-up (either of such dates being referred to in this sub-paragraph as "the operative date") by notice in writing to the Company to elect to be treated as if his conversion rights had been exercisable and had been exercised immediately before the operative date on the basis of conversion as provided above and in that event he shall be entitled to be paid in satisfaction of the amount due in respect of such of his Cumulative Convertible Preference Shares as are to be treated as if converted a sum equal to the amount of which he would have become entitled in such liquidation if he had been the holder of the Ordinary Shares to which he would have become entitled by virtue of such conversion (fractions being disregarded for this purpose), together with any arrears, deficiency or accrual for the preferential cumulative dividend on such Cumulative Convertible Preference Shares down to and including the Fixed Dividend Date last preceding the Cumulative Conversion Date which immediately preceded such winding-up. At the end of the said period of six weeks, any outstanding Cumulative Convertible Preference Shares shall cease to be convertible or capable of becoming convertible or of being as converted.
- (d) If the Company shall change its accounting reference date to a date which is more than fourteen days before or after 31 May, such adjustments (if any) shall be made to the conversion rights attached to the Cumulative Convertible Preference Shares as the Auditors shall determine to be fair so as not to prejudice the conversion rights and notification of any such change and adjustment shall be given to the holders of the Cumulative Convertible Preference Shares.

- (e) The Company shall send to the holders of the Cumulative Convertible Preference Shares a copy of every document sent to the holders of its Ordinary Shares at the same time as it is sent to the holders of the Ordinary Shares.
- (f) The Company shall procure that at all times there shall be sufficient authorised but unissued ordinary share capital available for the purposes of satisfying the requirements of any Cumulative Conversion Notice or Company Conversion Notice as may be delivered pursuant to paragraph (4) of this Article 4.1.
- (g) the Company shall not take any action which would result in an adjustment of the Cumulative Conversion Rate if, after giving effect thereto, the number of Ordinary Shares to be allotted or issued on conversion would be increased to such an extent that some or all of such shares could not be allotted or issued at that time without contravening section 80(1) or section 89(1) of the Act (as modified or re-enacted from time to time) or could not, under any other applicable law then in effect, be legally issued as fully paid unless and to the extent that such conversion can lawfully be effected in a manner which does not involve an allotment or issue of Ordinary Shares.

(8) Further Issues

The Company may from time to time create (including by redesignation) and issue further cumulative convertible preference shares (in these Articles called "Further Cumulative Convertible Preference Shares") which Further Cumulative Convertible Preference Shares may, as regards participation in the profits and assets of the company, either carry rights identical in all respects with the Cumulative Convertible Preference Shares or with any other series of Further Cumulative Convertible Preference Shares or rights differing therefrom in any respect (but not being in priority) including (but without prejudice to the generality of the foregoing) in that:

- (a) the rate and/or the basis of calculation of the dividend may differ;
- (b) the Further Cumulative Convertible Preference Shares may rank for dividend as from such date as may be provided by the terms of issue thereof and the dates for payment of dividend may differ;
- (c) subject to (d) below, a premium may be payable on a return of capital or there may be no such premium;
- (d) the Further Cumulative Convertible Preference Shares may be redeemable on such terms and conditions as may be prescribed by the terms of the issue thereof and/or the Articles of Association of the Company for the time being provided that the amount payable in respect of such Further Cumulative Convertible Preference Shares on a winding-up or other return on capital (including redemption) shall not exceed the amount paid on the subscription of such shares (together with any arrears, deficiency or accruals of dividends) or may be non-redeemable;
- (e) the Further Cumulative Convertible Preference Shares may be convertible into Ordinary Shares, or into any other class of Shares which constitutes Equity Share Capital ranking as regards participation in the profits or assets of the Company after the Further Cumulative Convertible Preference Shares.

Except as provided above the issue of Further Cumulative Convertible Preference Shares ranking as regards participation in the assets of the Company in any respect in priority to the Cumulative Convertible Preference Shares shall be deemed to be a variation of the special rights attached to such Shares. To the extent that the rights attaching to any issue of Further Cumulative Convertible Preference Shares rank behind the Cumulative Convertible Preference Shares, such issue shall be deemed not to be a variation to the special rights attached to such Shares.

(9) Re-designation

Upon any Cumulative Convertible Preference Share ceasing to be capable of conversion, such Share shall automatically be re-designated as a "Cumulative Second Convertible Redeemable Preference Share of £1" without any requirement to alter or substitute the then existing certificate in respect of the relevant Cumulative Convertible Preference Share."

2. Summary of Share Rights in the Company's Existing Articles of Association

The current Articles of Association of the Company contain or incorporate by reference, *inter alia*, provisions to the effect set out in this Section 2. It should be noted that upon the passing of EGM Resolution 1 and the passing of the Separate General Meeting Resolution and those resolutions becoming effective, the current Articles of Association will be amended to incorporate the New Article 4.1 setting out the special rights and restrictions attaching to the Cumulative Convertible Preference Shares set out in Section 1 above and as further summarised in Section 3 below:

(a) Voting rights

(i) Ordinary Shares

Subject to the restrictions described in paragraph (c) below, every member present in person or by attorney shall upon a show of hands have one vote and every member present in person or by attorney or by proxy shall upon a poll have one vote for every Ordinary Share of which he is the holder.

(ii) Existing Preference Shares

Holders of Existing Preference Shares shall, by virtue or in respect of their holdings of Preference Shares, have the right to receive notice of every general meeting of the Company, but shall not have the right to attend, speak or vote at such meeting unless a resolution is proposed abrogating, varying or modifying any of the rights or privileges of such holders, or for the winding up of the Company, or for the appointment of an administrator or for the approval of a voluntary arrangement. When such holders are so entitled to vote, subject to the restrictions described in paragraph (c) below, each holder present in person or by proxy or (being a corporation) by representative shall have upon a show of hands one vote and shall have upon a poll one vote for every full paid Existing Preference Share registered in his name.

(b) Dividends and distributions

(i) The holders of the Existing Preference Shares have no entitlement to any dividend and no right to participate in the profits of the Company.

(ii) Subject as provided in the Articles, the Company in general meeting may declare dividends, but no larger dividend shall be declared than is recommended by the Directors. Unless the rights and terms attached to any shares otherwise provide all dividends shall be declared and paid according to the amounts paid up on the shares and shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid, but, if any share is issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.

(iii) The Directors may pay such interim dividends as appear to them to be justified by the profits of the Company available for distribution.

(iv) No dividend or interim dividend shall be paid otherwise than in accordance with the provisions of the Act and all other statutory provisions relating to companies and affecting the Company ("the Statutes").

(v) On a return of capital on a winding-up or (except on the conversion, redemption or purchase of any shares) otherwise occurring, the assets of the Company available for distribution to its members shall be applied in the following priority order:

(aa) in repaying the nominal capital paid up or credited as paid up on the Existing Preference Shares; and

(bb) in repaying the nominal capital paid up or credited as paid up on the Ordinary Shares; and

(cc) if the winding up commences or the other return of capital occurs on or before 28 February 2001, in distributing the balance, if any, rateably amongst the holders of the Existing Preference Shares and the Ordinary Shares according to the amounts paid up on such shares (as if each Existing Preference Share had been converted into fully paid Ordinary Shares); or

(dd) if the winding-up commences or the other return of capital occurs after 28 February 2001:

- (A) in distributing rateably amongst the holders of Ordinary Shares according to the amounts paid up on them, up to a maximum amount of £5,000 per share; and
 - (B) then in distributing the balance, if any, rateably amongst the holders of the Existing Preference Shares and the Ordinary Shares according to the nominal value of their holdings of such shares (on the basis that each Existing Preference Share is treated for this purpose as having a nominal value equal to one-thousandth of the nominal value of an Ordinary Share).
- (vi) On a winding-up, the liquidator may, with the authority of an extraordinary resolution of the Company, divide among the members in kind the assets of the Company and may, for such purpose, value any assets and determine how such division shall be carried out and may vest the whole or any part of the assets in trustees upon trusts for the benefit of the members as he may determine.
 - (vii) The Directors may, before recommending any dividend, carry to reserve out of the Company's profits such sums as they think proper which will be applicable for any purpose to which the Company's profits may be properly applied and may in the meantime either be employed in the Company's business or invested in such investments as the Directors think fit. The Directors may divide the reserve into separate funds and may also, without placing the same to reserve, carry forward any profits which they think it not prudent to divide.
 - (viii) any dividend unclaimed for a period of 12 months after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company. Any dividend unclaimed for a period of 12 years after having been declared shall be forfeited and shall revert to the Company.

(c) *Restrictions on voting and dividend*

- (i) A member shall not be entitled to vote or receive any dividend in respect of any shares held by him if any calls or other moneys due and payable in respect of those shares remain unpaid.
- (ii) A member shall not be entitled to vote in respect of any shares ("default shares") held by him if he or any person appearing to be interested in those shares has been duly served with a notice (an "information notice") pursuant to any statutory provision concerning the disclosure of interests in voting shares and is in default in providing to the Company information thereby required within (where the default shares represent at least 0.25 per cent. of the issued share capital of the Company) 14 days or (in all other cases) 28 days.
- (iii) Where the default shares represent at least 0.25 per cent. of the issued shares of the relevant class, the Directors may withhold any dividend or other money which would otherwise be payable on or in respect of such shares. The restrictions on voting and withholding of dividends referred to in this paragraph (c) will cease to apply at the end of the period of one day after the earlier of receipt by the Company of notice that the default shares have been transferred to a bona fide unconnected third party and receipt by the Company of the information required by the information notice and the Board being fully satisfied that such information is complete.

(d) *Variation of class rights and alteration of capital*

- (i) Subject to the provisions of the Statutes, if at any time the capital of the Company is divided into different classes of shares, the rights or privileges for the time being attached to any class of shares may be varied or abrogated with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the issued shares of that class. To every such separate general meeting, the provisions of the Articles relating to general meeting shall apply, but the necessary quorum at any such meeting shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the relevant class and each holder of shares of the relevant class present in person or by proxy shall have one vote for each such share held by him, and, at an adjourned meeting, the quorum shall be two persons personally present holding shares of the class. The rights attached to any class of shares shall not, unless otherwise expressly provided by the terms of issue thereof, be deemed to

be varied by the creation or issue of further shares ranking in some or all respects *pari passu* therewith but in no respect in priority thereto.

- (ii) So long as any Existing Preference Shares remain capable of conversion into Ordinary Shares then, save with such consent or sanction on the part of the holders of the Existing Preference Shares as is required for a variation of the rights attached to such shares, no shares shall be issued pursuant to a capitalisation of profits or reserves (including any share premium account and capital redemption reserve) except Ordinary Shares:
 - (aa) issued credited as fully paid to holders of Ordinary Shares (and on any allotment of such shares the conversion rate shall be adjusted as described in sub-paragraph (e)(v)); or
 - (bb) paid up in full out of distributable profits or reserves and issued instead of a cash dividend.
- (iii) If, while any of the Existing Preference Shares remain capable of conversion, any offer or invitation by way of rights or otherwise (not being an offer or invitation to which the provisions described in sub-paragraph (e)(vii) apply) or any Capital Distribution is made (as defined in sub-paragraph (e)(v)) to holders of Ordinary Shares, the Company shall (unless the conversion rate falls to be adjusted pursuant to the provisions described in sub-paragraph (e)(v) in consequence of the proposed offer or invitation by way of rights or Capital Distribution and the Board shall have determined to do so) make or, so far as it is able, procure that there is made at the same time a like offer, invitation or Capital Distribution to each holder of Existing Preference Shares as if his conversion rights had been exercisable and exercised in full on the record date for such offer, invitation or Capital Distribution (as the case may be) on the basis of the Conversion Rate then applicable. Where such a like offer, invitation or Capital Distribution is made in circumstances in which an adjustment would otherwise fall to have been made to the Conversion Rate, no such adjustment shall be made.
- (iv) So long as any Existing Preference Shares remain capable of conversion into Ordinary Shares then, save with such consent or sanction on the part of the holders of the Existing Preference Shares as is required for a variation of the rights attached to such shares:
 - (aa) no equity share capital shall be issued which is not in all respects uniform with the Ordinary Shares, save:
 - (A) as to the date from which such equity share capital shall rank for dividend; or
 - (B) for equity share capital issued in connection with or pursuant to an employees' share scheme (as defined in section 743 of the Act) approved by the Company in General Meeting; or
 - (C) for equity share capital which has attached thereto rights as to dividend, capital and voting which in no respect are more favourable than those attached to the Ordinary Shares; or
 - (D) for equity share capital issued pursuant to an offer or invitation or Capital Distribution which is extended to the holders of Existing Preference Shares as described in the immediately preceding sub-paragraph (d)(iii); or
 - (E) the Further Preference Shares (as defined in sub-paragraph (d)(ix)) which are only comprised in the Company's equity share capital because as respects capital such further Preference Shares carry a right to participate beyond a specified amount in a distribution, being a right: (a) in the case of a distribution while such shares remain capable of conversion by the holders thereof, to participate as if the same had been converted on whatever basis of conversion applies to such shares (whether with or without priority as to repayment of the capital paid up or credited as paid up and with or without any amount as so repaid being brought into account by the holders thereof); and (b) in the case of a distribution after the shares have ceased to be capable of conversion by the holders thereof, to participate on a basis which is not more favourable than that specified in paragraph (b)(v) above in relation the Existing Preference Shares;
 - (bb) the Company shall not except:
 - (A) on or in connection with the conversion, redemption or purchase of any shares; or

(B) on or in connection with the issue or paying up of any securities by way of capitalisation of profits or reserves (including share premium account and any capital redemption reserve) not being a capitalisation which is prohibited as described in sub-paragraph (d)(ii); or

(C) as authorised by section 146(2) or, in respect of redeemable shares, by section 159 of the Act,

reduce its share capital or any uncalled liability in respect thereof or (except as authorised by sections 130(2), 160(2) and 170(4) of the Act) any share premium account or capital redemption reserve;

- (cc) the Company, if authorised to purchase its own Ordinary Shares, will not do so except in accordance with the requirements from time to time of the London Stock Exchange;
- (dd) no resolution shall be passed whereby the rights attached to the Ordinary Shares shall be modified, varied or abrogated, but, for the avoidance of doubt, it is hereby declared that any resolution for the disapplication of section 89(1) of the Act (or any provisions replacing the same) shall be deemed not to abrogate, vary or modify such rights;
- (ee) the Company shall not make any offer or invitation to the holders of Ordinary Shares or allot any shares in pursuance of a capitalisation issue or make any Capital Distribution during a conversion period or by a reference to a record date during a conversion period or following a conversion period by reference to a record date prior to such conversion period;
- (ff) the Company shall not make any issue, offer or distribution or take any other action if the effect thereof would be that, on the conversion of any Existing Preference Shares, the Company would be required to issue shares at a discount;
- (gg) the Company shall not take any action which would result in an adjustment of the conversion rate if, after giving effect thereto, the number of Ordinary Shares to be allotted or issued on conversion would be increased to such an extent that some or all of such shares could not be allotted or issued at that time without contravening section 80(1) or section 89(1) of the Act (as modified or re-enacted from time to time) or could not, under any other applicable law then in effect, be legally issued as fully paid unless and to the extent that such conversion can lawfully be effected in a manner which does not involve an allotment or issue of Ordinary Shares; and
- (hh) the Company shall procure that at all times up to the last conversion date there shall be sufficient unissued ordinary share capital, or unclassified share capital authorised to be issued as Ordinary Shares, available for the purposes of satisfying the requirements of any conversion notice.
- (v) The Company may by ordinary resolution increase its capital, consolidate all or any of its capital into shares or larger amount, sub-divide its shares or any of them into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person and diminish the amount of its share capital by the nominal value of the shares so cancelled.

Subject to any consent required by law, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account.

Subject to the provisions of the Statutes and any resolution relating thereto or to any authority to allot relevant securities, all unissued shares of the Company are under the control of the Directors.

Subject to the provisions of the Statutes, the Company may by special resolution create shares which are, or at the option of the Company are to be liable, to be redeemed on the terms and in the manner provided for by the Articles.

The Company may purchase its own shares (including any redeemable shares) provided that the Company shall not purchase its own shares save in accordance with the Statutes and, if there are outstanding any convertible shares which remain capable of being converted into shares which would entitle the holders to attend and vote at general meetings, unless such purchase has been sanctioned by an extraordinary resolution passed at a separate meeting of the holders of each class of such convertible shares.

The Company may by resolution convert all or any of its paid-up shares into stock and may, in like manner, reconvert such stock into paid-up shares of any denomination. The holders of such stock shall have the same advantages and privileges for all purposes as if they held the shares from which the stock arose.

Subject to the provisions described in sub-paragraph (d)(iv), the Company may from time to time create, (including by redesignation) and issue further preference shares ("Further Preference Shares") which Further Preference Shares may, as regards participation in the profits and assets of the Company, either carry rights identical in all respects with the Existing Preference Shares or with any other series of Further Preference Shares or rights differing therefrom in any respect including (but without prejudice to the generality of the foregoing) in that:

- (aa) a premium may be payable of a return of capital or there may be no such premium;
- (bb) the Further Preference Shares may be redeemable on such terms and conditions as the terms of issue thereof and/or the Articles of Association of the Company for the time being may prescribe; and
- (cc) the Further Preference Shares may be convertible into Ordinary Shares or any other class of shares ranking as regards participation in the assets of the Company after the Existing Preference Shares, in each case on such terms and conditions as the terms of issue thereof may prescribe.

Except as provided above the issue of further convertible preference shares ranking as regards participating in the assets of the Company in any respect in priority to the Existing Preference Shares or the Further Preference Shares shall be deemed to be a variation of the special rights attached to such shares.

(e) *Conversion of Existing Preference Shares*

- (i) Each holder of Existing Preference Shares has the right to convert some or all of his Existing Preference Shares by serving notice on the Company within 28 days before each of the following remaining conversion dates: 30 November 1996, 28 February 1997, 31 May 1997, 31 August 1997, 30 November 1997, 28 February 1998, 31 May 1998, 31 August 1998, 30 November 1998, 28 February 1999, 31 May 1999, 31 August 1999, 30 November 1999, 20 February 2000, 31 May 2000, 31 August 2000, 30 November 2000 and 28 February 2001. Conversion takes place (unless adjusted as described in sub-paragraph (e)(v) below) on the basis of 100 Ordinary Shares for every £9 nominal value of Existing Preference Shares converted.
- (ii) Conversion shall be effected in such manner as the Board may determine and as the law may allow and in particular may be effected by redemption of relevant Existing Preference Shares and immediate subscription out of the proceeds of redemption for the relevant number of Ordinary Shares; or by consolidation and sub-division - that is by the Existing Preference Shares to be converted which are held by any holder being consolidated into one share, which is then sub-divided into shares of 2.5p each of which 100 shares for each £9 of the nominal amounts of the consolidated share will be Ordinary Shares and the balance of such sub-divided shares will be non-voting deferred shares. (Such non-voting deferred shares shall on a return of capital on a winding up or otherwise entitle the holder only to repayment of the amounts paid up on such shares subject to the provisions described in sub-paragraph (b)(v) above and then only after the payment of £5,000 on each Ordinary Share pursuant to those provisions) and shall not entitle the holder to payment of any dividend, nor to receive notice of, attend, speak or vote at any general meetings.
- (iii) The Ordinary Shares resulting from conversion shall have the right to receive all dividends and (unless the conversion rate is adjusted pursuant to the Articles) other distributions declared paid or made on the ordinary share capital of the Company by reference to a record date falling after the relevant conversion date and shall otherwise rank *pari passu* in all respects with the Ordinary Shares then in issue and fully paid.
- (iv) If, immediately after any conversion date, 75 per cent or more of the Existing Preference Shares at any time issued shall have been converted or redeemed, the Company shall be entitled to require the remaining shares to be converted, provided that holders of such shares may elect to have such shares redeemed, rather than converted.

- (v) The conversion rate applicable to the Existing Preference Shares shall from time to time be adjusted in accordance with the provisions set out in this sub-paragraph (e)(v), subject always to the provisions set out in sub-paragraph (d)(iii):
- (aa) if the Company shall make any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account and capital redemption reserve) to the holders of Ordinary Shares then the conversion rate shall be increased pro rata, such increase to become effective as at the record date for such issue. No adjustment shall be made in the event of any issue of shares by way of capitalisation of profits or reserves in lieu of cash dividends;
 - (bb) if the Ordinary shares shall be consolidated or sub-divided, then the conversion rate shall be reduced or increased pro rata accordingly, such reduction or increase to become effective immediately after the consolidation or sub-division;
 - (cc) if, while any Existing Preference Shares remain capable of being converted into Ordinary Shares, the Company shall make any capital distribution (not being a capitalisation not contravening the provision referred to in sub-paragraph (d)(ii) or any repayment of capital or purchase of own shares (other than a redemption or purchase of redeemable shares in accordance with their terms of issue)) ("Capital Distribution") to the Ordinary Shareholders, then the number of Ordinary Shares to be issued for every £9 nominal amount of Existing Preference Shares subsequently converted shall be adjusted by multiplying such number of Ordinary Shares by the following fraction:

$$\frac{A}{A - B}$$

Where:

A is the average of the means of the market prices of one Ordinary Share for the preceding 5 business days ("Current Market Price Per Share") at the date on which the Capital Distribution is publicly announced; and

B is the fair market value on the day of such announcement, as determined by the auditors, or by a member of The Securities and Futures Authority Limited (or any successor organisation or authority) selected by the Board, (in either case acting as an expert and not as an arbitrator) of the portion of the Capital Distribution attributable to one Ordinary Share. The provisions described in this sub-paragraph (e)(v) shall not apply to any offer which falls within the following sub-paragraph (e)(v)(dd);

- (dd) if the Company shall offer to holders of the Ordinary Shares as a class new Ordinary Shares by way of rights at a price which is less than the Current Market Price Per Share at the date of announcement of the terms of the offer, then (except where the conversion rate falls to be adjusted as described in sub-paragraph (e)(v)(aa) and subject to the provisions set out in sub-paragraph (d)(iii), the aggregate nominal amount of Ordinary Shares to be issued for every £9 nominal amount of Existing Preference Shares subsequently converted shall be increased by an amount (expressed in pence) equal to:

$$\frac{X \times Z}{Y + Z}$$

Where:

X is the nominal amount (expressed in pence) of the new Ordinary Shares (including fractions thereof) which would have been offered to a holder of £9 nominal amount of Existing Preference Shares had his conversion rights been exercisable and exercised in full immediately before the record date for such offer at the conversion-rate then applicable;

Y is the price (expressed in pence) payable for each such new Ordinary Share under the terms of the offer; and

Z is the average of the means of the quotations (expressed in pence) published in the London Stock Exchange's Daily Official List of one such new Ordinary Share, nil paid, during the first five business days on which such new Ordinary Shares are dealt in on the Official List, nil paid.

- (vi) Upon the happening of any of the events mentioned in sub-paragraph (e)(v) above, the auditors shall, subject to sub-paragraph (d)(iii), report whether and, if so, to what extent, an adjustment to the conversion rate falls to be made and the Company shall give notice of the same to the Existing Preference Shareholders.
- (vii) If, while any of the Existing Preference Shares remain capable of conversion, an offer is made to the holders of Ordinary Shares (or all such shareholders other than the offeror and/or any company controlled by the offeror and/or any person acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company or any person proposes a scheme with regard to such acquisition and the Company becomes aware that the right to cast more than 50 per cent of the votes which may ordinarily be cast on a poll at a General Meeting of the Company has or will become vested in the offeror and/or such companies or persons aforesaid, the Company shall give written notice to all holders of Existing Preference Shares of such vesting (or prospective vesting) within 14 days of its becoming so aware and each holder shall be entitled within the period of 42 days from the date of such notice (but not thereafter) to convert some or all of his Existing Preference Shares into fully paid Ordinary Shares on the usual basis except that the conversion period shall be the said period of 42 days and the conversion date shall be the last day of such period and the Ordinary Shares arising on conversion shall not rank for any dividend or distribution declared paid or made before the conversion date or in respect of the financial year during which the conversion date occurs.
- (viii) If while any of the Existing Preference Shares remain capable of conversion the Company is wound up, the Company shall forthwith give notice thereof in writing to all holders of Existing Preference Shares and each holder of Existing Preference Shares shall in respect of all or any of his Existing Preference Shares be entitled within 6 weeks after the date of the resolution for winding up the Company or (as the case may be) after the date of the Order of the Court for winding up by notice in writing to the Company to elect to be treated as if his conversion rights had been exercisable and had been exercised immediately before such date on the basis of the Conversion Rate then applicable and in that event he shall be entitled to be paid in satisfaction of the amount due in respect of such of his Existing Preference Shares as are to be treated as if converted a sum equal to the amount to which they would become entitled in such winding up if he had been the holder of the Ordinary Shares to which he would have become entitled by virtue of such conversion, fractions being disregarded for this purpose. At the end of such 6 week period any outstanding Existing Preference Shares shall cease to be capable of conversion.
- (ix) If the Company shall change its accounting reference date to a date which is more than 14 days before or after 31 May, such adjustment shall be made to the conversion rights attached to the Existing Preference Shares as the auditors shall determine to be fair so as not to prejudice such conversion rights and notification of such change and adjustment shall be given to the holders of the Existing Preference Shares.

(f) *Redemption and purchase of Existing Preference Shares*

- (i) Holders of Existing Preference Shares may apply for their shares to be redeemed on the same dates as the remaining conversion dates set out in sub-paragraph (e)(i) above (notice to be given within the 28 days ending on the day before the relevant redemption date). However, the Company is only obliged to redeem on each redemption date in aggregate the higher of (a) 64,474 Existing Preference Shares; or (b) where a previous redemption date has passed, being one falling on or after 31 August 1996, but the number of shares redeemed on that date was less than 64,474 ("shortfall") 64,474 Existing Preference Shares plus the aggregate of any previous shortfalls. If all Existing Preference Shares in respect of which holders have requested redemption cannot be so redeemed because the said maximum number is exceeded, the Articles contain provisions to permit holdings to be redeemed pro rata by reference to the holdings of those holders of Existing Preference Shares who have served redemption notices. Paramount must redeem any Existing Preference Shares on 2 March 2001, provided that holders of such shares may elect to allow to have such shares converted rather than redeemed.
- (ii) Upon redemption, a holder should receive in relation to each share to be redeemed a sum equal to the nominal capital paid up or credited as paid up on such share. If any Existing Preference Shares cannot be redeemed on any redemption date, the Company shall redeem such number as it may lawfully redeem on such date and redeem the remaining number as soon thereafter as it shall lawfully be permitted to do so.

- (iii) Subject to the provisions of the Act, the Company may at any time purchase Existing Preference Shares on such terms and conditions as the Company may think fit.

(g) *Transfer of shares*

- (i) The instrument of transfer of a share shall be signed by the transferor (and, except in the case of a share which is fully paid, by or on behalf of the transferee) and the transferor shall remain the holder of the share until the name of the transferee is entered in the register in respect thereof. All transfers shall be effected by instrument in writing in any usual or common form or any other form acceptable to the Directors. The Directors may, in their absolute discretion and without assigning any reason therefor, refuse to register the transfer of a share unless it is fully paid. The Directors may likewise refuse to register any transfer:
 - (aa) if it is not duly stamped;
 - (bb) if it is in favour of more than four persons jointly or is a transfer in respect of more than one class of share; or
 - (cc) if it is not accompanied by the relevant share certificate(s) (save in the case of a recognised clearing house where a share certificate has not been issued in respect of the shares in question) and such other evidence as the Directors may reasonably require to show the title of the transferor and the due execution of the transfer.
- (ii) The registration of transfers may be suspended by the Directors for any period (not exceeding 30 days in any year).
- (iii) No member holding default shares (as defined in sub-paragraph (c)(ii) above which represent at least 0.25 per cent. of the issued share capital of the Company shall, unless the Board otherwise determines, be entitled to transfer those shares (other than pursuant to a sale to a bona fide unconnected third party) if he has been duly served with an information notice (as so defined) and he is in default in supplying the information required provided that this restriction shall cease to apply at the time described in sub-paragraph (c)(iii) above.

3. Summary of Proposed Amendments to the Existing Articles of Association

The following is a brief explanation of the principal amendments to the existing Articles of Association proposed to be effected by the adoption of the New Articles pursuant to EGM Resolution 1 and the Separate General Meeting Resolution. A full copy of the New Articles, embodying all the amendments proposed to be so effected, will be available for inspection at the offices of Norton Rose, Kempson House, 35-37 Camomile Street, London EC3A 7AN during normal business hours (Saturdays and public holidays excepted) until the close of the Extraordinary General Meeting and at the place of each of the Separate General Meeting and the Extraordinary General meeting for at least 15 minutes before and during the relevant Meeting:

- (a) The principal proposed amendment is to incorporate a New Article 4.1 as set out in section 1 of this Part IV.
- (b) It is also considered appropriate to make the following principal further and consequential amendments to the Company's existing Articles of Association:
 - (i) Amendments to permit the issue of uncertificated securities and the transfer of shares other than by written instrument following the inauguration of CREST:—
 - (aa) **Definitions**

The New Articles will contain certain additional definitions and related provisions, the principal details of which are set out below. These definitions and provisions will be referred to in the other amendments relating to the adoption of the CREST system and have been incorporated for clarity:—
 - (i) "the Regulations" means the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272) including any modification thereof or any regulations in substitution therefor and for the time being in force. It is in accordance with these regulations that the CREST system (a "relevant system" as defined in these regulations) has been established. All transfers of uncertificated shares

must be made in accordance with such a relevant system and the relevant amendments to the Existing Articles made as a result of the proposed adoption by the Company of the CREST system reflect this;

- (ii) references in the New Articles to a Share (or to a holding of Shares) being: (a) in uncertificated form or Uncertificated Shares or (b) in certificated form or Certificated Shares; are references, respectively, to that Share or Shares being an uncertificated unit of a security or a certificated unit of a security; and
- (iii) for the purposes of the New Articles, a dematerialised instruction is properly authenticated if it complies with the specifications referred to in paragraph 5(b) of Schedule 1 to the Regulations.

(bb) Article 4.1(1)(b)/Article 107

When fully operational in respect of the Cumulative Convertible Shares and the Ordinary Shares, CREST will enable transfers of such shares to be registered electronically on a same day basis. This could result in rapid changes being made to the Register of Members of the Company which could, in turn, cause administrative difficulties under the Existing Articles in determining the identity of the holders of Cumulative Convertible Preference Shares for the purposes of paying to them any preferential cumulative dividend. The revised wording will allow the Board to specify a time and a date at which the Register of Members may be taken as definitive for this purpose.

(cc) Article 4.1(4)(i)

The wording of this Article provides for the situation where, at the time of conversion of any Existing Preference Shares, the Ordinary Shares to be issued on such conversion are in uncertificated form, the entitlement to such shares may be evidenced in accordance with the Regulations, rather than by the issue of a new share certificate for such Ordinary Shares.

(dd) Article 11.1/Article 24

The new Article 11.1 and the amendments to Article 24 will provide that title to any securities of the Company may be transferred without a written instrument to the extent that arrangements have been implemented by the Board for such a purpose in accordance with the Regulations. Certificated shares will still be transferred by instrument in writing in any usual or common form or in any other form acceptable to the Directors.

(ee) Article 11.2

The amendments to this Article will clarify the position that share certificates need not be issued in respect of uncertificated shares.

(ff) Article 20

The amendments to this Article will enable any person authorised by the Board to perfect the transfer of forfeited shares whether they are at the relevant time certificated shares or uncertificated shares, and such transfer will be as effective as if made by the holder of such forfeited shares.

(gg) Article 26

The amendments to this Article will clarify that the Directors will have no authority to decline to register the transfer of an uncertificated share solely because no instrument of transfer in respect of such share is lodged with the Company.

(hh) Article 27

The current Article states that the Board must notify a proposed transferee of any share of its refusal to register the transfer in question within two months of the date on which the transfer is lodged with the Company. As such lodgement would not take place in respect of uncertificated shares, the date on which the appropriate two month period begins to run in respect of such shares will be the date the Company receives notice of the transfer pursuant to the Regulations.

(ii) Article 33

This Article, which relates to the transfer of shares, will, as amended, provide that a person entitled in the event of the death of a member to shares in uncertificated form will be able to transfer such shares to his nominee by means of dematerialised instruction.

(ij) **Article 35(b)**

The existing Article gave the Directors power in certain circumstances to appoint any person to transfer any share belonging to an untraced member. The amendments to this Article will provide that the Directors can effect the transfer of shares at the relevant time in uncertificated form by dematerialised instruction.

(kk) **Article 105(a)**

The amendments to this Article will provide that any dividend can be paid in accordance with the rules of a relevant system and, if appropriate, by electronic media or other means.

(ii) **Amendments to reflect developments in market practice and to simplify administration:—**

(aa) **Article 2 - Definitions**

The New Articles will contain the following additional definitions as part of the general amendments to reflect developments in market practice and simplify administration:

- (A) "business day" – this definition will help to clarify the exact length of certain notice and other periods referred to in the New Articles;
- (B) "Current Market Price Per Share" – this definition has been updated to remove reference to the Ordinary Shares being listed on the Unlisted Securities Market;
- (C) "Ordinary Share" – this definition has been added to make it clear that this term refers to an ordinary share in the capital of the Company for the time being, whatever its nominal value;
- (D) "Share" – this definition has been added so that reference may be made to holders of any shares for the time being in the Company rather than referring to the different classes of shares in full; and
- (F) "the Stock Exchange" – this definition has been updated to reflect the change in name to London Stock Exchange Limited.

(bb) Article 100(a) and (b) - these identical amendments reflect the fact that the payment by the Company of dividends (and interim dividends) is subject to the rights attaching to the Cumulative Convertible Preference Shares.

(cc) Article 119(b) - this amendment clarifies the provisions relating to the service of notices is the same for notices served both by and on the Company.

(dd) As a result of the adoption of the New Articles, certain consequential amendments have been made to the paragraph numbering to ensure that cross references are properly made.

(ee) Shareholders should also note that a few additional clerical and typographical changes are proposed and certain statutory references have been updated.

(iii) **Amendments to the rights attaching to the Existing Preference Shares:**

The rights and obligations attaching to the Existing Preference Shares will be varied to reflect the creation of the Cumulative Convertible Preference Shares and the fact that such newly-created shares rank in priority, in certain respects, to the Convertible Preference Shares and to reflect the Consolidation. The rights attaching to the Existing Preference Shares will also be varied to amend the bases on which those shares may be redeemed and converted. The principal amendments are set out below:

(aa) **Return of capital**

Article 4.2(2) of the New Articles provides that the Existing Preference Shares now rank behind the Cumulative Convertible Preference Shares in accordance with Article 4.1(2) of the New Articles as described in Section 1 of this Part IV above.

(bb) **Conversion**

- (A) Amendments are proposed, contained in New Article 4.2, to ensure that the dates on which Existing Preference Shares may be converted will remain any

28 February, 31 May, 31 August or 31 November, until 31 July 1998 when the conversion dates then and thereafter shall be any 31 October, 31 January, 30 April and 31 July, until 31 January 2001.

- (B) Amendments are proposed, contained in New Article 4.2(3), to ensure that upon the Consolidation of the Company's ordinary Shares of 2.5p each into ordinary shares of 25p each, the conversion of Existing Preference Shares to Ordinary Shares shall be on the basis of 10 Ordinary Shares of 25p each (rather than 100 Ordinary Shares of 2.5p each) for every £9 in nominal value of Existing Preference Shares converted and references to Ordinary Shares of 2.5p each will be references to Ordinary Shares of 25p each.
- (C) Other amendments to Article 4.2(3)(h) of the New Articles will have the effect that in the event of a conversion of Existing Preference Shares being effected by means of a consolidation and sub-division, the Non-Voting Deferred Shares arising as a result thereof shall on a return of capital only entitle the holder to repayment of the amount paid up on such shares after payment in respect of each Cumulative Convertible Preference Share, each Existing Preference Share and each Ordinary Share of the capital paid up on such share and £100,000.
- (D) Article 4.2(n) - this amendment removes references to the Unlisted Securities Market and provides for the situation where the Ordinary Shares are dealt in on any stock exchange other than the Stock Exchange. In such a case any Existing Preference Shares will be converted into Ordinary Shares dealt in on such other stock exchange or, if they are dealt in on more than one stock exchange, on that exchange which the Company shall designate to be the principal stock exchange.
- (E) Article 4.2(o)(iv) - this amendment replaces the reference to the Unlisted Securities Market in the formula for adjustment of the conversion rate applicable to the Existing Preference Shares with a reference to the Stock Exchange and provides for the circumstances where the Ordinary Shares are not listed on the Official List.

(cc) Redemption

The current redemption rights are summarised in paragraph 2(f) of this Part IV. However, amendments are proposed, contained in New Article 4.2(4), to vary the bases on which the Existing Preference Shares may be redeemed. By virtue of the amendments:

- (A) holders of Existing Preference Shares may apply for their shares to be redeemed only on 31 July 1998, and any 31 October, 31 January, 30 April and 31 July thereafter until 31 January 2001;
- (B) the Company will only be obliged to redeem on each redemption date falling on or after 31 July 1998 in aggregate the higher of (a) 32,237 Existing Preference Shares; or (b) where such a previous redemption date has passed, being one falling on or after 31 July 1998, but the number of shares redeemed on that date was less than 32,237 ("shortfall"), 32,237 Existing Preference Shares plus the aggregate of any previous shortfalls; and
- (C) however, as currently, Paramount will be required to redeem any remaining Existing Preference Shares on 2 March 2001.

(dd) Other Rights and Obligations

- (A) Article 4.2(6)(a) - this amendment provides that the holders of Existing Preference Shares must for so long as such shares remain capable of conversion into Ordinary Shares consent to or sanction any issue of shares pursuant to a capitalisation of profits of reserves except those issued in accordance with Article 4.1(7)(a)(i)(A) and (B) which is set out in Section 1 above.
- (B) Article 4.2(6)(e) - this amendment clarifies the circumstances in which for as long as such shares remain capable of conversion into Ordinary Shares not in all respects uniform with the Ordinary Shares in issue on the date of the passing of the resolution to adopt the new Article 4.1. equity share capital may

be issued without the consent or sanction of the holders of Existing Preference Shares. The relevant circumstances are those set out in Article 4.1(7)(a)(iii) which is set out in Section 1 above.

- (C) Article 4.2(6)(v) - this amendment excepts from the prohibition on the Company not to make any offer or invitation to the holders of Ordinary Shares, and not to allot any shares in pursuance of a capitalisation issue or make any Capital Distribution during a Conversion Period (or in other similar circumstances), any offer or invitation to which Article 4.2(3)(o)(iv) or 4.2(6)(g) applies (i.e. a rights issue at a price less than the Current Market Price Per Share or any offer or invitation other than an offer involving a change of control of the Company).

(ee) Further Issues

Article 4.2(8) - the amendments to this paragraph will have the effect that the rights attaching to any further convertible preference shares to be issued shall not rank in any respect equal or in priority to any rights attaching to any Cumulative Convertible Preference Share then in issue and not converted. The fact that the issue of further convertible redeemable preference shares ranking as regards participation in the assets of the Company in any respect in priority to the Convertible Preference Shares of further convertible preference shares is deemed to be a variation of the special rights attaching to those shares is expressed to be without prejudice to the power of the Company to issue further cumulative convertible preference shares pursuant to Article 4.1(8).

(iv) Amendments to the rights attaching to the Ordinary Shares:

The rights and obligations attaching to the Ordinary Shares will be varied to reflect the creation of the Cumulative Convertible Preference Shares and the fact that the Ordinary Shares will rank in certain respects behind the Cumulative Convertible Preference Shares as well as the Existing Preference Shares. These amendments will be effected by the adoption of New Article 4.1 which is set out in Section 1 of this Part IV above.

PART V

ADDITIONAL INFORMATION

1. Responsibility statement

The Directors and the Proposed Directors, whose names appear in paragraphs 6(a) and (b) of this Part V accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Share capital

- (a) The table on the front page of this document shows the authorised and issued share capital of the Company as it is at the date of this document and as it will be following the Rights Issue and the Consolidation (assuming no exercise of options under the Existing Share Option Scheme).

The Existing Ordinary Shares are listed on the London Stock Exchange and are in registered form. The New Ordinary Shares will, and the Cumulative Convertible Preference Shares will, when fully paid, be in registered form.

The Existing Preference Shares carry the right to be converted and/or redeemed as set out in Part IV of this document.

- (b) The New Articles will provide that the Cumulative Convertible Preference Shares carry the right to be converted into Ordinary Shares as described in Section 1 of Part IV of this document. The holders of Cumulative Convertible Preference Shares will be entitled to a preferential cumulative dividend as described in Section 1 of Part IV of this document.
- (c) The provisions of 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, save to the extent that such provisions have been disapplied. By a special resolution passed at the Annual General Meeting held on 7 December 1995 the Directors were given power until the close of the Annual General Meeting of the Company next following the passing of such resolution (or, if sooner, until 7 March 1997) to allot equity securities (within the meaning of section 94(2) of the Act) for cash, as if the provisions of section 89(1) of the Act did not apply to such allotment, *inter alia*, (i) in circumstances where the allotment is in connection with a rights issue to holders of Ordinary Shares (in proportion to their respective holdings) and to holders of Existing Preference Shares (in proportion to their respective deemed holdings of Ordinary Shares as if such Existing Preference Shares had been converted pursuant to the provisions of the Company's Articles of Association), subject to such exclusions or other arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory and (ii) generally, of equity securities up to an aggregate nominal value of £147,502.

The specific power to allot equity securities for cash as if Section 89(1) of the Act did not apply to such allotment proposed to be given to the Directors in accordance with EGM Resolution 1 will be in addition to, and without prejudice to, the power given to the Directors at the Annual General Meeting held on 7 December 1995.

- (d) EGM Resolution 1 is to be proposed at the Extraordinary General Meeting pursuant to which if passed and if it becomes effective, to enable the Rights Issue to be made, the Subscription Agreement to be completed and the New Share Option Arrangements to be implemented, subject to and conditionally upon Admission taking place on or before 8 January 1997 or such other date as the Company, Beeson Gregory and NASCIT may agree, but in any event not later than 22 January 1997 ("the Condition"), *inter alia*:
- (i) the authorised share capital of the Company will be increased from £5,150,000 to £11,522,000, a percentage increase of 123.69 per cent. in the authorised share capital of the Company, by the creation of 3,111,000 Cumulative Convertible Preference Shares and by the creation of an additional 130,440,000 Existing Ordinary Shares;

- (ii) the Directors will be authorised (for the purposes of Section 80 of the Act) to allot relevant securities in connection with any of the Rights Issue, the Subscription Agreement and the New Share Option Arrangements up to a maximum nominal amount of £3,647,031, and additionally, subject to and conditionally upon the New Ordinary Shares being admitted to the Official List and such admission becoming effective on or before 22 January 1997, to allot by way of capitalisation issue in connection with the Consolidation additional Existing Ordinary Shares in order to avoid fractions of New Ordinary Shares arising on the Consolidation, each such authority to expire on the date that is 12 months following the date of EGM Resolution 1. (The number of additional Existing Ordinary Shares that would be so allotted to avoid fractions if the record date for the Consolidation was the close of business on 28 November 1996 (the latest practicable date before the publication of this document) would be 1,530 shares having an aggregate nominal amount of £38.25); and
 - (iii) the Directors will be empowered to disapply the pre-emption rights conferred on shareholders by section 89(1) of the Act for the purposes of an issue of equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred as described in the previous sub-paragraph (ii) as if section 89(1) of the Act did not apply to any such allotment of equity securities (within the meaning of section 94 of the Act) provided that this power shall be limited to the allotment of equity securities in connection with any of the Rights Issue, the Subscription Agreement and the New Share Option Arrangements, such power to expire on the date that is 12 months following the date of EGM Resolution 1.
- (e) Subject to EGM Resolution 1 as described in paragraph (d) above being passed and becoming wholly unconditional and effective, the Directors will:
- (i) have the authority pursuant to section 80 of the Act to allot:
 - (aa) in connection with the Rights Issue and the Subscription Agreement, up to 3,110,679 Cumulative Convertible Preference Shares, representing approximately 75.4 per cent. by nominal value of the share capital in issue on 28 November 1996, the latest practicable date before the date of this document;
 - (bb) in connection with the New Share Option Arrangements, up to 2,144,415 New Ordinary Shares, representing approximately 13 per cent. (by nominal value) of the share capital in issue on 28 November 1996, the latest practicable date before the date of this document; and
 - (cc) in connection with the Consolidation as described in sub-paragraph (d)(ii) above, 1,530 Existing Ordinary Shares (on the assumption that the fractions that otherwise would arise on the Consolidation would be the same as those that would arise if the record date for the Consolidation was as described in sub-paragraph (d)(ii));
 - (ii) be empowered pursuant to section 95 of the Act to issue for cash otherwise than pro rata to shareholders' entitlements as required by section 89 of the Act:
 - (aa) in connection with the Rights Issue and the Subscription Agreement, up to 3,110,679 Cumulative Convertible Preference Shares representing approximately 75.4 per cent. by nominal value of the share capital in issue on 28 November 1996, the latest practicable date before the date of this document; and
 - (bb) in connection with the New Share Option Arrangements, up to 2,144,415 New Ordinary Shares, representing approximately 13 per cent. (by nominal value) of the share capital in issue on 28 November 1996, the latest practicable date before the date of this document.
- (f) Following the Rights Issue and the Consolidation, and assuming an allotment by way of capitalisation issue as described in sub-paragraph (d)(ii) above, 16,184,394 New Ordinary Shares will be authorised but unissued, of which up to 2,144,415 may be issued under the New Share Option Arrangements and up to 1,289,554 and 8,295,144 may be issued upon conversion of Existing Preference Shares or Cumulative Convertible Preference Shares respectively. Additionally, Ordinary Shares are liable to be issued under the existing options granted under the Existing Share Option Scheme details of which are given in paragraph 6 below (such options being subject to adjustment as described in paragraphs 2(i) and 10(f) below). The Directors have no present intention to issue any of the authorised but unissued share capital of the Company other than in connection with the Rights Issue or the Subscription Agreement as described in paragraph 12.

- (g) Save as disclosed in paragraphs 6(e) and 6(g) of this Part V and save in connection with the Rights Issue, no share or loan capital of Paramount or any subsidiary undertaking of Paramount (Paramount and any such subsidiary undertaking being, together, "the Group") either has been agreed conditionally or unconditionally to be placed under option or has been agreed conditionally or unconditionally to be issued or is now proposed to be issued fully or partly paid either for cash or for a consideration other than cash.
- (h) The Directors, who have been so advised by Grant Thornton Corporate Finance, believe, having regard to relevant circumstances, the Rights Price to be the best subscription price per Cumulative Convertible Preference Share at which it is appropriate the Rights Issue should be made, the Subscription Agreement Price (as described in paragraph 12 below) to be the best subscription price per Cumulative Convertible Preference Share at which it is appropriate Paul Davies, NASCIT and Beeson Gregory should subscribe as described in paragraph 12 below, and the amounts payable to the Company in connection with the exercise of options under the New Share Option Arrangements to be the best amounts it is appropriate should be paid to the Company in those respective circumstances.
- (i) In accordance with the rules of the Existing Share Option Scheme, adjustments may be made to the number of Ordinary Shares in respect of which options have been granted and/or the price payable on exercise, to take account of the Rights Issue and the Consolidation. Such adjustments will be made in accordance with the rules of the Existing Share Option Scheme and will be subject to written confirmation from the auditors of the Company that the adjustments are, in their opinion, fair and reasonable. Such adjustments will also be subject to the approval of the Board of Inland Revenue.

3. Subsidiary Undertakings

The Company had two subsidiary companies, each of which were dormant, during its financial year ended 31 May 1996: Adamdock Limited and North West Amusements Limited. These companies were struck from the register of companies at the request of their directors on 11 June 1996. Paramount has, as at the date of this document, no subsidiary undertakings.

4. Articles of Association

A brief explanation of the differences between the current articles of Association of the Company ("Existing Articles") and the New Articles, together with a summary of the rights attaching to the Ordinary Shares and the Existing Preference Shares and a full description of the rights attaching to the Cumulative Convertible Preference Shares extracted from the New Articles is set out in Part IV of this document.

5. Taxation

A brief summary of the current United Kingdom taxation implications of the Rights Issue for persons resident in the United Kingdom is set out in paragraph 4 of Part II of this document.

6. Directors and other interests

- (a) The current Directors of the Company and their respective functions are:

Robert Dennis Price (Chairman)
 Peter Heaton Standing (Chief Executive)
 Leonard Edward Jones (Finance Director and Secretary)
 Carole Mary Lawson (Non-executive)
 John Malcolm Fryer (Non-executive).

The business address of all the Directors is the registered office of the company St. Werburgh Chambers, Chester, CH1 2EP.

- (b) The Proposed Directors and their proposed functions are:

Paul David Davies (Chief Executive)
 of: Greenacres, Tamarix Close, Gedling, Nottingham NG4 4AJ

Christopher Harwood Bernard Mills (non-executive Director and Chairman)
 of: J.O. Hambro & Partners Limited, 10 Park Place, London SW1A 1LP.

- (c) Subject to and conditionally upon the Rights Issue becoming wholly unconditional, Mr Price and Mr Standing will resign as Directors and employees of the Company in return for compensation for loss of office, in full and final settlement of all claims, as follows:
- (i) Mr Price is to receive an amount of £140,000, equivalent to 2 year's salary. Mr Price is also to be allowed the use of his Company car for 24 months following which he may, if he wishes, elect to acquire the car for a nominal amount. The options granted to Mr Price under the Existing Share Option Scheme (details of which are set out in paragraphs 6(e) below) will lapse upon his resignation;
- (ii) Mr Standing is to receive an amount of £116,000, equivalent to 2 year's salary. The options granted to Mr Standing under the Existing Share Option Scheme (details of which are set out in paragraph 6(e) below) will lapse upon his resignation.
- (d) The interests (all beneficial unless otherwise indicated) of the Directors and their immediate families notified to the Company pursuant to Sections 324 and 328 of the Act in the share capital of the Company (including the interests of persons connected with the Directors within the meaning of Section 346 of the Act), as they appeared on 28 November 1996 (the latest practicable date prior to the publication of this document) in the register maintained under Section 325 of the Act (or which would be required to be recorded in the register if the relevant connected person were a Director) were as follows:

<i>Director</i>	<i>Present¹</i>		<i>Immediately following the Rights Issue and Subscription²</i>	
	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of issued Existing Ordinary Shares</i>	<i>Number of Cumulative Convertible Preference Shares</i>	<i>Percentage of issued Cumulative Convertible Preference Share Capital</i>
R D Price	857,438	0.74	19,487	0.63
P H Standing	138,235	0.12	3,141	0.10
L E Jones	112,000	0.09	2,545	0.08
C M Lawson	—	—	—	—
J M Fryer	—	—	—	—

Notes

- None of the Directors (or persons connected with them within the meaning of section 346 of the Act) has any interest in any Existing Preference Shares.
 - These interests reflect the Directors' stated intentions in respect of the Rights Issue.
- (e) The following options have been granted to the Directors under the Existing Share Option Scheme which are exercisable during the following periods in each case at the following prices per Existing Ordinary Share:

<i>Director</i>	<i>Normal earliest date for exercise</i>		<i>Exercise price per Existing Ordinary Share (p)¹</i>	<i>Number of Existing Ordinary Shares over which options are held</i>
	<i>Latest date for exercise</i>			
R D Price ²	16.09.1993	by 16.09.2000	10.89	468,000
	09.01.1995	by 09.01.2002	6.41	117,000
	22.11.1995	by 22.11.2002	5.12	456,300
	17.10.1997	by 17.10.2004	7.75	208,700
P H Standing ²	03.04.1998	by 03.04.2005	7.5	650,000
L E Jones	03.04.1998	by 03.04.2005	7.5	650,000

Notes

- Consideration of £1 is payable for the grant of any option under the Existing Share Option Scheme.
- The options granted to Mr Price and Mr Standing will lapse upon their resignations as set out in paragraph 6(c) above.

- (f) As at 28 November 1996 (the latest practicable date prior to the publication of this document), the Company had been notified of the following interests in addition to those disclosed in paragraph (c) above, which amount to 3 per cent. or more of its issued Existing Ordinary Share capital (table (i)) and 3 per cent. or more of its issued Existing Preference Share capital (table (ii)):

(i)	<i>Number of issued Existing Ordinary Shares</i>	<i>Percentage of issued Existing Ordinary Shares</i>
The Greenalls Group PLC	19,070,967	16.1
Burtonwood Brewery PLC	10,105,897	8.5
Nomura International plc	9,000,000	7.6
Bass Brewers Limited	5,096,600	4.3
Ivory and Sime	4,833,334	4.1

The Company is not aware of the intentions of the shareholders listed above with respect to the Rights Issue.

(ii)	<i>Number of issued Existing Preference Shares</i>	<i>Percentage of issued Existing Preference Shares</i>
Burtonwood Brewery Limited	580,300	50
Bass Brewers Limited	580,300	50

- (g) Options over 5,085,000 Existing Ordinary Shares are outstanding under the terms of the Existing Share Option Scheme as at 28 November 1996 (the latest practicable date prior to the publication of this document).

These options are held by Directors as set out in paragraph 6(e) above, and additionally by other Company employees as summarised as follows:

<i>Date of Grant</i>	<i>Exercise price per Existing Ordinary Share (p)</i>	<i>Normal earliest date of exercise</i>	<i>Latest date for exercise</i>	<i>Number of Existing Ordinary Shares over which options are held</i>
16.09.1990	10.89	16.09.1993	16.09.2000	760,500
09.01.1992	6.41	09.01.1995	09.01.2002	210,600
22.11.1992	5.12	22.11.1995	22.11.2002	912,600
17.10.1994	7.75	17.10.1997	17.10.2004	651,300

- (h) Save as disclosed above and for the service contracts referred to in paragraph 7 below, no Director has or has had any interest in any transaction which is or was of an unusual nature, contained unusual conditions or is or was significant to the business of the Company and which was effected by the Company during the current or immediately preceding financial year or in an earlier financial year and which, in this latter case, remains in any respect outstanding or unperformed.

7. Directors' service contracts

- (a) Save as referred to in paragraph (b) below, there are no existing or proposed service contracts between any of the Directors or any of the Proposed Directors and the Company except contracts previously made available for inspection and not subsequently varied (save in respect of salary increases in accordance with the terms of such contracts).
- (b) Paul Davies ("the Proposed Executive") has entered into a service agreement with the Company, dated 29 November 1996. This agreement is conditional upon the Rights Issue becoming wholly unconditional and upon the appointment of the Proposed Executive being approved and becoming effective, and further details of the agreement are set out below:

<i>Proposed Executive</i>	<i>Appointment</i>	<i>Notice Period</i>	<i>Annual salary £</i>
P D Davies	Chief Executive	1 year's notice from the Company; 6 months' notice from the Proposed Executive	75,000

Under this service agreement the Proposed Executive:

- (i) is to be free to serve for his own benefit as a non-executive director of up to two other companies but otherwise must devote his full time and attention to Paramount;
- (ii) shall be entitled to a bonus to be approved by the Remuneration Committee of the Paramount board and which will be subject to performance criteria to be determined by that Committee;
- (iii) is entitled to an appropriate motor car and membership of a private health insurance scheme, to have his out-of-pocket expenses incurred in the performance of his duties met by Paramount, to have pension contributions made by the Company and to have 25 working days' holiday per annum.
- (c) The aggregate remuneration and benefits in kind (including pension contributions totalling £10,794) granted during the year ended 31 May 1996 by the Company to the Directors was £238,964.

8. Statement of indebtedness

At the close of business on 31 October 1996, the Company had indebtedness as follows:

	<i>£'000</i>
Overdraft (secured)	614
Term loans (secured)	8,825
Other loans (unsecured)	64
Hire purchase and finance leases	89
Indebtedness	<u>9,592</u>

Save as disclosed above, the Company did not have outstanding at the close of business on 31 October 1996, any loan capital (whether issued or created but unissued) term loans, other borrowings or indebtedness in the nature of borrowing (whether guaranteed, unguaranteed, secured or unsecured and including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire-purchase commitments and finance lease obligations) or guarantees or other material contingent liabilities.

At the close of business on 31 October 1996, the Company had cash balances of £7,462.

9. Working capital

The Company is of the opinion that taking into account the net proceeds to be received by the Company pursuant to the Rights Issue and having regard to bank and other facilities available to the Company, the Company has sufficient working capital for its present requirements.

10. The Existing Share Option Scheme

On 6 September 1989 the Company approved and adopted the Existing Share Option Scheme and on 11 July 1990 it was approved by the Inland Revenue under the provisions of Schedule 9 of the Income and Corporation Taxes Act 1988 ("ICTA"). Particulars of the principal provisions of the Existing Share Option Scheme are set out below.

(a) Eligibility

Following approval of the Existing Share Option Scheme by the Inland Revenue and during the period of 10 years commencing on the date of adoption of the Existing Share Option Scheme by the Company in general meeting, the board of directors of the Company or a duly authorised committee thereof (in this paragraph 10 "the Directors") may grant options to subscribe for shares under the Existing Share Option Scheme to persons who are full time employees or full time directors of one or more companies in the Participating Group and are not within two years of their nominal retirement date. For this purpose "the Participating Group" means the Company and any company under its control which has been nominated by the Directors to participate in the Existing Share Option Scheme and "full time" means that an employee is required to devote substantially the whole of his working time to his duties and in any event not less than 20 hours per week or (in the case of directors) 25 hours per week, excluding meal breaks.

(b) Grant of options

- (i) The Directors may issue invitations to apply for options within 42 days after the dates on which the Company announces its annual and half-yearly results, provided that, if the Company is prevented by statute, order, regulation or government directive from inviting applications within any of those periods, they may do so within the period of 42 days after the lifting of such restrictions.
- (ii) Each invitation must specify the subscription price and the closing date for applications which must not be more than 14 days after the date of invitation.
- (iii) Subject to such conditions being previously approved by the Inland Revenue, the Directors may on the grant of an option impose conditions to be met before an option may be exercised.
- (iv) An application may not be made for less than 100 ordinary shares in the Company (in this paragraph 10 "ordinary shares") but may be made for more (in any event being a multiple of 100 ordinary shares) than the amount specified in the invitation.
- (v) The consideration for the grant of an option under the Existing Share Option Scheme is £1.
- (vi) No more than 28 days after the date of grant of an option, the Company must issue an option certificate to each option holder; and
- (vii) Options granted under the Existing Share Option Scheme are not transferable except that on the death of an option holder, his personal representatives may in certain circumstances exercise his option, as set out below.

(c) Subscription price

- (i) If the Company's ordinary shares are at the relevant time quoted in the Official List, the price per share at which an option will be exercisable will be the greater of the nominal value of an ordinary share and the average of the middle market quotations of an ordinary share as derived from the Daily Official List dated three dealing days before the day on which the invitation leading to the grant of the relevant option is issued, as agreed with the Inland Revenue.
- (ii) If the Company's ordinary shares are not at the relevant time quoted in the Official List, the price per share at which an option will be exercisable will be the greater of the nominal value of an ordinary share and its market value on the day on which the invitation leading to the grant of the relevant option is issued, as agreed with the Inland Revenue.

(d) Limits

- (i) The maximum number of ordinary shares which may be issued under the Existing Share Option Scheme is 5,775,000 (subject to adjustment as referred to in paragraph 10(f) below)

representing approximately 5 per cent. of the Company's present issued ordinary share capital.

- (ii) The aggregate number of ordinary shares over which options may be granted pursuant to the Existing Share Option Scheme on any particular date is further limited so that it shall not exceed the lesser of:
 - (aa) when aggregated with ordinary shares that have been issued or remain issuable in respect of rights granted within the previous 10 years under the Existing Share Option Scheme and any other share option scheme or share acquisition scheme or profit sharing scheme adopted by the Company ("Other Share Schemes"), 10 per cent. of the issued ordinary share capital of the Company on the day preceding that date;
 - (bb) when aggregated with ordinary shares that have been issued or remain issuable in respect of rights granted within the previous 10 years under the Existing Share Option Scheme and any Other Share Schemes (other than savings related share option schemes and any share schemes designed for the participation of employees of the Participating Group generally), 5 per cent. of the issued ordinary share capital of the Company on the day preceding that date.
- (iii) The aggregate number of ordinary shares over which options may be granted pursuant to the Existing Share Option Scheme on any date of grant shall be further limited so that, when aggregated with ordinary shares that have been issued or remain issuable in respect of rights granted under the Existing Share Option Scheme or any Other Share Schemes in the period of three years up to and including the date preceding the date of grant, it shall not exceed 3 per cent. of the issued ordinary share capital of the Company on the day preceding that date of grant.
- (iv) No employee or director may be granted an option the aggregate subscription price of which, if aggregated with the aggregate subscription cost of any ordinary shares comprised in any rights granted to him earlier which remain to be exercised under the Existing Share Option Scheme or under any other share option scheme approved under Schedule 9 ICTA (other than any savings related share option scheme) established by the Company or by any associated company of the Company (within the meaning of Section 416 ICTA), would at the date of grant of that option exceed the appropriate limit. Until 28 April 1996, the appropriate limit was the greater of:
 - (aa) £100,000; and
 - (bb) four times his relevant emoluments for the income tax year of assessment current at that date of grant or for the preceding year of assessment (whichever of those years gives the greater amount) or (if he has no relevant emoluments for the preceding year) four times his relevant emoluments for the period of 12 months beginning with the first day during the current year of assessment in respect of which he has relevant emoluments,

and, for the purpose of this paragraph "relevant emoluments" means such emoluments in respect of his office or employment with the Participating Group as are liable to be paid under deduction of tax pursuant to Section 203 ICTA after deducting from them any amounts included by virtue of Chapter II of Part V ICTA. Since 29 April 1996 and by virtue of the Finance Act 1986, the appropriate limit is £30,000.

- (v) No employee or director shall be granted an option the aggregate subscription price of which, is aggregated with the aggregate subscription cost of any ordinary shares comprised in any rights granted to him within the previous 10 years under the Existing Share Option Scheme or under any Other Share Schemes (other than any savings related share option schemes and any schemes designed for the participation of employees of the Participating Group generally), would exceed four times his total annual emoluments from the Participating Group at the date of grant of that option.
- (e) *Exercise of options*
 - (i) An option granted under the Existing Share Option Scheme may not be exercised after the expiry of the period of ten years from the date of its grant ("the Option Period") save that if an option holder dies whilst he is entitled to exercise an option his personal representatives may exercise that option within 12 months after his death notwithstanding that such exercise is after the expiry of the Option Period.
 - (ii) Save as mentioned in sub-paragraphs (v) and (vi) below, an option may not be exercised within three years from its date of grant.

- (iii) No option shall be capable of being exercised unless any subsisting condition of exercise imposed on the grant of such option shall have been previously satisfied.
- (iv) An option shall lapse on the happening of the earliest of the following events:
 - (aa) the expiry of the Option Period relating to that option unless the option holder shall have died prior to such expiry whilst he was in the full time service of the Participating Group or while he was entitled to exercise an option in circumstances referred to in sub-paragraphs (v)(aa) and (v)(bb) below;
 - (bb) the option holder ceasing to be in the full time service of the Participating Group otherwise than by reason of death or in any of the circumstances set out in paragraph (v)(aa) below or in circumstances in which the Directors permit him to exercise his option as set out in sub-paragraph (v)(bb) below;
 - (cc) the expiry of the periods for exercise of the option applicable to the option holder as set out in sub-paragraphs (v)(aa) and (v)(bb) below unless the option holder shall die during any such period;
 - (dd) the expiry of the period of six months mentioned in sub-paragraph (vi)(aa) below;
 - (ee) the expiry of the period of six months mentioned in sub-paragraph (vi)(bb) below;
 - (ff) the expiry of the period of 60 days mentioned in sub-paragraph (vi)(cc) below;
 - (gg) the option holder becoming bankrupt;
 - (hh) the first anniversary of the death of the option holder,

provided that if an option holder is granted a New Right (as referred to in sub-paragraph (vii) below), items (aa) and (bb) above shall have effect as if references to the Participating Group were references to the Acquiring Company (as referred to in sub-paragraph (vi) below) and all companies which are for the time being under its control ("the New Group").

- (v) Notwithstanding sub-paragraph (ii) above:
 - (aa) if the option holder ceases to be in the full time service of the Participating Group by reason of retirement on reaching pensionable age or retirement age under his contract of employment, injury, redundancy, disability, the company by which he is employed ceasing to be a member of the Participating Group of the undertaking in which he is employed being sold or transferred outside the Participating Group, then he may exercise his option within six months thereafter or (if the Directors so exercise their discretion) during whichever is the longer of the period of 12 months thereafter and the period of three and a half years from the date of grant of that option;
 - (bb) if the option holder ceases to be in the full time service of the Participating Group otherwise than by reason of death or in any of the circumstances set out in item (aa) above, his option shall thereupon lapse unless the Directors in their absolute discretion permit him to exercise his option within such period thereafter, not exceeding six months, as the Directors may decide;
 - (cc) in the event of the death of the option holder while he is in the full time service of the Participating Group or while he is entitled to exercise an option in the circumstances set out in items (aa) and (bb) above, his legal personal representatives shall be entitled to exercise his option during the period of 12 months following his death,

provided that if the option holder has been granted a New Right then the preceding items of this sub-paragraph will thereafter have effect as if references to the Participating Group were references to the New Group.

- (vi) Notwithstanding sub-paragraph (ii) above:
 - (aa) if any person or group of persons acting in concert obtains control of the Company pursuant to an offer made to the holders of the ordinary share capital of the Company, an option holder may exercise his option within six months after control is so obtained unless the offeror(s) shall be bound and entitled to acquire shares under Sections 428 to 430 of the Act, in which event his subsisting options shall lapse six weeks after the date of the notice given to dissenting shareholders pursuant to the said Sections 428 to 430 of the Act;

- (bb) if a compromise or arrangement between the Company and its members or creditors proposed for the purpose of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies is sanctioned by the Court pursuant to Section 425 of the Act, an option holder may exercise his option within six months after the date of such sanction; and
 - (cc) in the event of the voluntary winding up of the Company, an option holder may within 60 days of the commencement of the winding up exercise his option.
- (vii) If any company ("the Acquiring Company") obtains control of the Company as a result of making a general offer or obtains control of the Company in pursuance of a compromise or arrangement sanctioned by the Court under Section 425 of the Act, or becomes bound or entitled to acquire all the shares in the Company of the same class as the shares to which the option relates under Sections 428 to 430 of the Act, an option holder may, at any time within the appropriate period as defined in Schedule 9 ICTA, by agreement with the Acquiring Company, release his option in consideration of the grant to him of a right ("New Right") which is equivalent to his option but relates to shares in a different company (whether the Acquiring Company itself or some other company as permitted by Schedule 9 ICTA); the New Right will be treated as having been granted at the time when the corresponding option was granted by the Company and will continue to be governed by the rules of the Existing Share Option Scheme.

(f) Variation of share capital

Upon any variation of the issued ordinary share capital of the Company following a capitalisation or rights issue or a reduction, subdivision or consolidation of share capital, the subscription price and/or the number of shares subject to an option and/or the limit set out in paragraph 10(d)(i) above shall be adjusted in such manner as the Directors may in their absolute discretion think fit, provided that the Inland Revenue shall have given its prior approval to the adjustment, that the adjustment shall not result in the subscription price for a share being less than its nominal value and that, except in the case of a capitalisation issue, the Auditors shall have confirmed in writing that in their opinion such adjustment is fair and reasonable.

(g) Issue of shares

- (i) Shares issued on the exercise of an option will rank in full for all dividends and other distributions paid or made on the ordinary share capital of the Company by reference to a record date occurring on or after the date of allotment and shall in all other respects rank *pari passu* with the ordinary share capital of the Company then in issue. If the ordinary share capital of the Company is then quoted in the Official List the Company will within 28 days after the exercise of the option make application to the London Stock Exchange for admission of the shares issued upon the exercise of an option to the Official List.
- (ii) The Company will keep available sufficient unissued ordinary share capital to satisfy the exercise in full of all options for the time being remaining capable of being exercised under the Existing Share Option Scheme.
- (iii) No option shall be exercisable save in accordance with the then current Model Code for Listed Companies issued by the London Stock Exchange. All grants of options and allowance and issues of ordinary shares must be subject to attaining all necessary consents under any relevant enactments or regulations for the time being in force.

(h) Administration and amendments

Subject to the prior written approval of the Inland Revenue, the Existing Share Option Scheme may be altered in any respect by resolution of the Directors except that:

- (i) the definitions relating to the persons to whom options may be granted, the definitions of Option Period, relevant emoluments, market value and subscription price and the provisions of the rules relating to the issue of invitations of options, the release of options in consideration of the grant of New Rights, the adjustment of options and the limit on the number of shares subject to the Existing Share Option Scheme upon any variation of share capital, the rights to be attached to the shares issued on exercise of options and the listing of such shares and the provisions of the rule providing for alteration of the rules may not be altered except with the prior sanction of an ordinary resolution of the Company in general meeting; and
- (ii) no amendment which would materially prejudice the interests of option holders already granted to them will be effective without the prior consent of such option holders given in the manner set out in the rules,

provided that sub-paragraphs (i) and (ii) above do not apply to the extent that the Directors may alter the rules to obtain or maintain Inland Revenue approval of the Existing Share Option Scheme under Schedule 9 ICTA or (other than the definitions relating to persons eligible to be granted options and the fixing of the subscription price in relation to options and the rules summarised in sub-paragraph 10(d)(i), (ii), (iii) and (v) and the rule that options may not be granted under the Existing Share Option Scheme more than ten years after the Existing Share Option Scheme is adopted by the Company in general meeting) to comply with or take account of the provisions of any proposed or existing legislation or in order to obtain or maintain favourable tax treatment of the Company or any other member of the Participating Group or any existing or future option holder.

11. The New Share Option Arrangements

The New Share Option Arrangements will be constituted by deeds made between the Company and the Proposed Executive (as defined in paragraph 7(b) above) and any further executive director to whom the Remuneration Committee may resolve to grant options under the New Share Option Arrangements respectively. Particulars of the principal provisions of the deed relating to the Proposed Executive are set out below. The deed relating to any such further executive director will not significantly differ from the Proposed Executive's deed.

(a) Grant of Options

The Proposed Executive will be granted two options, each to subscribe for 536,103 New Ordinary Shares. No consideration is payable for the grant of these options.

(b) Exercise price

The price payable for each New Ordinary Share on exercise of the option will be 40p.

(c) Variation of Share Capital

In the event of a capitalisation issue or a rights issue or a rights offer or a reduction, sub-division or consolidation of the Company's share capital or any other variation of share capital, the exercise price and/or the number of shares under option and/or their nominal value will be adjusted in such manner as the Company's Remuneration Committee ("the Committee") determine to be appropriate, provided that, except in the case of capitalisation issue (other than an enhanced scrip dividend), the auditors of the Company shall confirm that in their opinion the adjustment is fair and reasonable. No adjustment will be made for a scrip dividend other than an enhanced scrip dividend.

(d) Exercise in normal circumstances

Of the two options to be granted to the Proposed Executive Director, one will not normally be exercisable until the third anniversary of its grant and the other will not normally be exercisable until the fifth anniversary of its grant. In each case, the option will not normally be exercisable unless a performance target has been achieved. In the case of the option which is first exercisable on the third anniversary of the date of its grant, the performance target will be that the fully diluted consolidated earnings per New Ordinary Share for the financial year ending May 1999 equal or exceed 4.65p. In the case of the option which is normally first exercisable on the fifth anniversary of its date of grant, the target will be that such earnings per share for the financial year ending May 2001 equal or exceed 4.65p per New Ordinary Share increased by the aggregate of the percentage increase in RPI over the two years from May 1999 and 4 per cent. per annum compound. In calculating adjusted earnings per share, reported profits will be adjusted by applying a notional charge of taxation at the rate of 33 per cent. of profit before tax in place of the actual tax charge reported.

(e) Exercise in special circumstances

An option may normally only be exercised while the Proposed Executive remains employed by the Company or a subsidiary of the Company. If, after the performance target has been met and the option has become exercisable, the Proposed Executive ceases to be employed, the option may be exercisable in certain circumstances in the period of six months thereafter. These circumstances are death, ceasing employment on account of injury, disability or redundancy, retirement and the sale of the business or group company for which the proposed director works, and, if the Committee permits, ceasing employment in any other circumstances. If any of these circumstances (other than retirement at or after normal retirement age) arise before the date on which the option would otherwise first become exercisable (i.e. the third or the fifth anniversary of its grant), the option may be exercised without the necessity of meeting the performance target. Early exercise is also allowed in the event of amalgamation, reconstruction or takeover of the Company or a de-merger or a winding-up of the Company, without, in any such case, the necessity of meeting the performance target.

(f) *Issue or transfer of shares on exercise of options*

On exercise of an option, the Company may issue unissued New Ordinary Shares or may procure the transfer of existing issued New Ordinary Shares to the Proposed Executive. New Ordinary Shares issued on exercise of an option will rank in full for dividends and other distributions paid or made on the ordinary share capital of the Company by reference to a record date occurring on or after the date of allotment and will in all other respects rank *pari passu* with the ordinary share capital of the Company then in issue. The Company will make application to the London Stock Exchange for listing of such New Ordinary Shares. The Company will keep available sufficient unissued ordinary share capital to satisfy the options in full.

(g) *Legal entitlement*

The deed provides that the terms of employment of the Proposed Executive will not be affected by the deed or the grant of options and that the Proposed Executive will not be entitled, on ceasing to be employed, to make any claim against the Company or any other group company for compensation for or in respect of any consequent diminution or extinction of his rights or benefits under the deed, except where the Company or other group company employing the Proposed Executive is held to have wrongfully terminated his contract of employment.

(h) *Amendment*

Save for minor amendments to take account of any changes in legislation or to obtain or maintain favourable tax, exchange, control or regulatory treatment for the Proposed Executive or for the Company, no amendment may be made to the New Share Option Arrangements without the prior approval of shareholders of the Company in general meeting.

12. Material contracts

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

- (a) the Underwriting Agreement, under the terms of which NASCIT has agreed to underwrite the issue of the Rights Shares and Beeson Gregory has agreed to assist in connection with the Rights Issue and the application for Admission.

In consideration of their services they will be paid commissions and fees as follows:—

- (i) NASCIT will be paid a commission (exclusive of any VAT) of 2 per cent. of the sum resulting from multiplying the Rights Price by the number of Rights Shares (out of which commission NASCIT will pay any sub-underwriting commissions); and
- (ii) Beeson Gregory will be paid an advisory fee of £85,000 (exclusive of VAT).

The Company will pay all other expenses of or incidental to the Rights Issue, including the fees of the London Stock Exchange, printing costs, registrars and receiving agents' fees, the Company's legal expenses and all related irrecoverable VAT, if applicable.

The Underwriting Agreement, which contains certain warranties and indemnities by Paramount, and warranties by the Executive Directors in favour of NASCIT and Beeson Gregory is conditional, *inter alia*, on Admission taking place on or before 8 January 1997 or such later date as NASCIT, Beeson Gregory and the Company may agree but in any event not later than 22 January 1997, the passing of the Separate General Meeting Resolution, the passing of EGM Resolutions numbered 1 to 5 inclusive and the variations of class rights involved therein or in the implementation of the matters referred to in EGM Resolution 1 becoming effective and incapable of cancellation. (The conditions other than that relating to Admission taking place may be waived by the Underwriter and Beeson Gregory). In addition, the Underwriting Agreement may be terminated by NASCIT and Beeson Gregory in certain circumstances prior to posting of the Provisional Allotment Letters;

- (b) the Subscription Agreement dated 29 November 1996 and made between NASCIT, Paul Davies, Beeson Gregory and the Company, under the terms of which each of Paul Davies, Beeson Gregory and NASCIT has agreed to subscribe and/or, in the case of NASCIT, procure the subscription in cash for 37,500, 25,000 and 59,768 Cumulative Convertible Preference Shares respectively in each case at par ("Subscription Agreement Price"), and the Company has agreed to allot such shares accordingly, in each case conditionally upon the Rights Issue having become wholly unconditional, such subscription to be completed on the fifth business day following the last day on which acceptance and payment in full under the Rights Issue may be made;

- (c) an agreement dated 15 October 1996 ("the Agreement") and made between the Company and M G Sanders Company Limited ("the Purchaser") pursuant to which the Company agreed to sell to the Purchaser property in Newcastle Street, Stone, Staffordshire (Title number SF302523) ("the Property"), the consideration for such sale being the payment to the Company by the Purchaser of £275,000. The Property was sold subject to but with the benefit of a lease dated 29 May 1985 made between Segi Engineering Limited (1) and Hammersley & Fitchett Limited (2) in respect of Unit 9 at the Property and all and any rights or obligations arising thereunder and the leases and surrenders set out in clause 5 of the Agreement.
- (d) Agreement dated 26 November 1996 and made between Britannia Las Direct Limited ("the Landlord") and the Company ("the Britannia Agreement") pursuant to which, conditionally upon the grant of contract from Cross Country Developments Limited and the installation by the Landlord to the satisfaction of the Company of certain items of office furniture, equipment and partitioning more particularly listed in the Britannia Agreement, the Landlord will grant to the Company a lease of the suite of offices on the third floor of Steam Mill, Steam Mill Street, Chester ("the Lease"). The Lease is for a term at 10 years at an annual rent of £36,187, the payment of such rent to commence twelve months and seven weeks from the commencement of the term of the Lease. The Lease contains certain covenants given by the Company and provides that the Company may determine the Lease on the fifth anniversary of its commencement by giving three months previous written notice.

13. Litigation

The Company is not, nor has it been, involved in any legal or arbitration proceedings which may have or have had during the 12 months immediately prior to the date of this document, a significant effect on the Company's financial position, nor, so far as the Company is aware, are any such proceedings pending or threatened.

14. Significant changes

There has been no significant change in the financial or trading position of the Company since 31 May 1996, the date to which the latest audited preliminary financial statements have been published.

15. Consent

Grant Thornton Corporate Finance has given and not withdrawn its written consent to the issue of this document, with the inclusion herein of its name and the references thereto in the form and context in which it appears.

16. Other information

- (a) The auditors of the Company are Grant Thornton, Registered Auditors and Chartered Accountants, Heron House, Albert Square, Manchester M2 5HD. They have audited the annual accounts of the Company for each of the three years ended 31 May 1995 and given an unqualified report on each of those years.
- (b) The Rights Price is equal to the nominal value of each Cumulative Convertible Preference Share.
- (c) The costs, charges and expenses of or incidental to the Rights Issue, including all fees and commissions, are estimated to amount to approximately £470,000 (excluding value added tax), and are payable by the Company. This also includes the fee of £85,000 payable to Beeson Gregory of which it has agreed to apply £25,000 in subscribing for 25,000 Cumulative Convertible Preference Shares at par and the commissions of £59,768 payable to NASCIT which it has agreed to apply in subscribing for 59,768 Cumulative Convertible Preference Shares at par.
- (d) NASCIT is a fully listed investment company whose registered office is 10 Park Place, London, SW1A 1LP.
- (e) The Company was incorporated in England and Wales on 29 July 1985 under the Act as Silver Bear plc, a public company limited by shares with registered number 1934366. The Company changed its name to Paramount P.L.C. on 28 February 1989. The Company operates under the Act.

17. Documents available for inspection

Copies of this document and of each of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the Company's registered office and at the offices of Norton Rose, Kempson House, 35-37 Camomile Street, London EC3A 7AN from the date of this document up to and including 28 January 1997:

- (a) the Memorandum of Association of Paramount;
- (b) the Existing Articles of Association of Paramount and the New Articles;
- (c) the published reports and audited consolidated accounts of the Company for the two financial years ended 31 May 1995 and the audited preliminary results set out in Part III of this document;
- (d) the service agreement of the Proposed Executive referred to in paragraph 7(b) of this Part V;
- (e) the material contracts referred to in paragraph 12 of this Part V;
- (f) the letter of consent referred to in paragraph 15 of this Part V;
- (g) the rules of the Existing Share Option Scheme; and
- (h) the draft of the deed of grant to be entered into pursuant to the New Share Option Arrangements.

29 November 1996



PARAMOUNT P.L.C.

(Registered in England and Wales No. 1934366)

NOTICE OF A SEPARATE GENERAL MEETING OF THE HOLDERS OF ORDINARY SHARES

To: Ordinary Shareholders

Notice is hereby given that a Separate General Meeting of the holders of the ordinary shares of 2.5p each in the capital of Paramount P.L.C. will be held at Addleshaw Sons & Latham, Dennis House, Marsden Street, Manchester M2 1JD at 10.00 am on 16 December 1996 for the purpose of considering and if thought fit, passing the following resolution which will be proposed as an Extraordinary Resolution:

EXTRAORDINARY RESOLUTION

THAT this separate meeting of the holders of the issued ordinary shares of 2.5p each in the capital of Paramount P.L.C. ("the Company") having the rights set out in the Company's articles of association ("the Ordinary Shares") hereby consents to, approves and sanctions the passing at the extraordinary general meeting ("the EGM") of the Company to be held at 10.00 a.m. on 23 December 1996 or at any adjournment of the EGM of the resolution numbered 1 set out in the notice convening the EGM contained in the circular to shareholders of the Company comprising a prospectus relating to the Company dated 29 November 1996, and the implementation of the matter or matters referred to in such resolution and to each and every variation, modification or abrogation of the rights or privileges attached to the Ordinary Shares which is or may be thereby involved or thereby effected.

Registered office:
St. Werburgh Chambers
Chester CHI 2EP

By order of the Board
L.E. Jones
Secretary

Dated 29 November 1996

Notes:

1. Only holders of ordinary shares of 2.5p each in the capital of Paramount P.L.C. are entitled to attend and vote at this meeting.
2. A holder of ordinary shares entitled to vote at this meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
3. Holders of ordinary shares wishing to appoint a proxy should complete the enclosed blue form of proxy and ensure that it is lodged with Independent Registrars Group Limited, Balfour House, 390/398 High Road, Ilford, Essex, IG1 1NO not later than 10.00 am on 14 December 1996.
4. A copy of the new Articles of Association of the Company proposed to be adopted by the resolution numbered 1 set out in the notice convening the EGM will be available for inspection at the offices of Norton Rose, Kempson House, 35-37 Camomile Street, London, EC3A 7AN during normal business hours (Saturdays and public holidays excepted) until the close of the meeting and at the place of the meeting from at least 15 minutes before and during the meeting.
5. Holders of ordinary shares are reminded that the necessary quorum for this meeting is at least two persons holding or representing by proxy one third of the issued ordinary shares. In the event that the quorum requirement is not satisfied, it is intended that the meeting shall stand adjourned until 11.00 am on 17 December 1996. If at such adjourned meeting the quorum requirement is still not satisfied within half an hour, the members present in person or by proxy shall be a quorum and the business of this meeting shall be transacted.

PARAMOUNT P.L.C.

(Registered in England and Wales No. 1934366)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Paramount P.L.C. will be held at Addleshaw Sons & Latham, Dennis House, Marsden Street, Manchester M2 1JD at 10.00 am on 23 December 1996 for the purpose of considering and, if thought fit, passing the following resolutions, of which the resolutions numbered 1 and 2 will be proposed as Special Resolutions and the resolutions numbered 3, 4, 5 and 6 will be proposed as Ordinary Resolutions:

SPECIAL RESOLUTIONS

1. **THAT** subject to and conditionally upon the Rights Issue (as referred to and defined in the circular to shareholders of Paramount P.L.C. ("the Company") comprising a prospectus relating to the Company dated 29 November 1996 ("the Prospectus")) becoming unconditional and the Rights Shares (as so referred to and defined) being admitted to the Official List of London Stock Exchange Limited ("Official List"), nil paid, and such admission becoming effective on or before 8 January 1997 or such other later date as the Company, North Atlantic Smaller Companies Investment Trust plc ("NASCIT") and Beeson Gregory Limited may agree but in any event not later than 22 January 1997 ("the Condition"):
 - (a) the authorised share capital of the Company be increased from £5,150,000 to £11,522,000 by the creation of 3,111,000 Cumulative Second Convertible Redeemable Preference Shares of £1 each in the Company ("Cumulative Convertible Preference Shares"), and by the creation of 130,440,000 new ordinary shares of 2.5 pence each in the capital of the Company, such shares having the respective rights and being subject to the respective restrictions attached thereto and imposed thereon by the Articles of Association of the Company proposed to be adopted pursuant to paragraph (d) of this resolution;
 - (b) the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (as defined for the purposes of section 80 of the Companies Act 1985 ("the Act")) in connection with any of the Rights Issue, the Subscription Agreement and the New Share Option Arrangements (each as described and defined in the Prospectus) up to an aggregate nominal amount of £3,646,783 (this authority to be in addition to, and without prejudice to, any other existing authorities pursuant to section 80 of the Act), provided that this authority unless renewed shall expire on the date that is twelve months following the date of this resolution;
 - (c) the Directors be and are hereby empowered to allot equity securities (as defined for the purposes of section 95 of the Act) for cash pursuant to the authority conferred by paragraph (b) of this resolution as if section 89(1) of the Act did not apply to any such allotment, this power to be in addition to, and without prejudice to, any other existing powers pursuant to section 95 of the Act, provided that this power shall be limited to the allotment of equity securities in connection with any of the Rights Issue, the Subscription Agreement and the New Share Option Arrangements (each as defined and described in the Prospectus) and that such power shall expire on the date that is twelve months following the date of this resolution;
 - (d) the Articles of Association produced to the Meeting and signed for the purpose of identification by the Chairman of the Meeting be adopted as the Articles of

Association of the Company in substitution for the existing Articles of Association of the Company; and

- (e) and subject to and conditionally also upon the New Ordinary Shares (as defined in the Prospectus) being admitted to the Official List, and such admission becoming effective on or before 22 January 1997, the 150 million existing ordinary shares of 2.5 pence each in the capital of the Company and the 130,440,000 new ordinary shares of 2.5 pence each to be created pursuant to paragraph (a) of this resolution be consolidated so as to be divided into ordinary shares of 25 pence each in the Company ("New Ordinary Shares") and where fractional entitlements would otherwise thereby arise as a result of such consolidation, the Directors be authorised for the purposes of section 80 of the Act and all other purposes, notwithstanding any provision to the contrary in the Company's Articles of Association, to allot at par immediately before the consolidation is effected to ordinary shareholders whose names appear on the register of Members of the Company as such at the close of business on 7 January 1997 and who would otherwise, on the passing of this resolution and its becoming effective, be entitled to a fraction of a New Ordinary Share, such additional ordinary shares of 2.5p each (not exceeding 9 shares in the case of any single holding) as results in each of such holders holding an integral multiple of 10 such shares and to capitalise such part of the sum standing to the credit of the Company's share premium account as is required to pay up in full those additional shares and to apply that sum on behalf of the persons to whom those additional shares are allotted in paying up in full those shares (this authority to be in addition to, and without prejudice to, any other existing authorities pursuant to section 80 of the Act and the authority conferred by paragraph (b) of this resolution), provided that this authority, unless renewed, shall expire on the date that is six months following the date of this resolution.
2. **THAT** the amount standing to the credit of the share premium account of the Company be reduced by £6,445,000.

ORDINARY RESOLUTIONS

3. **THAT**, subject to and conditionally upon the passing of resolution numbered 1 contained in the Notice of Meeting of which this resolution forms part ("Resolution 1") and the fulfilment of the Condition (as defined in Resolution 1) Mr Paul David Davies be appointed as a Director of the Company and the Directors be authorised to grant to Mr. Davies options to subscribe for an aggregate of 1,072,206 unissued New Ordinary Shares (as defined in Resolution 1) pursuant to the New Share Option Arrangements (as defined in the Prospectus (as defined in Resolution 1)).
4. **THAT**, subject to and conditionally upon the passing of resolution numbered 1 contained in the Notice of Meeting of which this resolution forms part ("Resolution 1") and the fulfilment of the Condition (as defined in Resolution 1) the Directors be authorised to grant to the additional executive director proposed to be appointed as described on page 11 of the Prospectus (as defined in Resolution 1) options to subscribe for an aggregate of 1,072,206 unissued New Ordinary Shares (as defined in Resolution 1) pursuant to the New Share Option Arrangements (as defined in the Prospectus).
5. **THAT**, subject to and conditionally upon the passing of resolution numbered 1 contained in the Notice of Meeting of which this resolution forms part ("Resolution 1") and the fulfilment of the Condition (as defined in Resolution 1) Mr Christopher Harwood Bernard Mills be appointed as a Director of the Company.

6. **THAT** the Directors be and are hereby authorised to amend the rules of the Paramount P.L.C. Executive Share Option Scheme 1989 by deleting therefrom rule 4(4) (being the rule which states the maximum number of ordinary shares which may be issued under such scheme, being currently 5,775,000 ordinary shares).

Registered office:
St. Werburgh Chambers
Chester CH1 2EP

By order of the Board
L.E. Jones
Secretary

Dated 29 November 1996

Notes:

- (1) A member entitled to vote at this meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) To be valid, proxy cards must be lodged with Independent Registrars Group Limited, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ not later than 10.00 am on 21 December 1996.
- (3) Holders of convertible redeemable preference shares of £1 each in the Company are entitled to receive notice of this meeting and to attend and vote by virtue of their holding of such shares on the resolution numbered 1 set out above.
- (4) A copy of each of the new proposed Articles of Association of the Company, and a draft of the deed of grant to be entered into pursuant to the New Share Option Arrangements proposed to be approved by resolutions 4 and 5 above will be available for inspection at the offices of Norton Rose, Kempson House, 35-37 Camomile Street, London EC3A 7AN during normal business hours (Saturdays and public holidays excepted) until the close of the meeting and at the place of the meeting for at least 15 minutes before and during the meeting.