

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

If you have sold or transferred all your holding of Ordinary shares or convertible loan stock in Merchant Retail Group plc (other than ex-rights), you should send this document with the accompanying provisional allotment letter, 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 listing particulars relating to Merchant Retail Group plc in accordance with the listing rules made under Part IV of the Financial Services Act 1986, has been delivered for registration to the Registrar of Companies in England and Wales as required by section 149 of that Act.

Application has been made to the Council of The London Stock Exchange for the new Ordinary shares to be admitted to the Official List. It is expected that dealings will commence, nil paid, in the new Ordinary shares on Friday, 7th June 1991.



Preliminary announcement of results for the
year ended 30th March 1991
and

Rights Issue of
18,602,940 new Ordinary shares at 33p per share

The latest time for acceptance and payment in full under the Rights Issue is 3.00 p.m. on 28th June 1991. The procedure for acceptance and payment is set out on pages 8 and 9 of this document and in the accompanying provisional allotment letter.



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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	1991
Record date for entitlement to new Ordinary shares	Thursday, 30th May
Dealings in new Ordinary shares commence, nil paid	Friday, 7th June
Latest time for splitting, nil paid	3.00 p.m. on Wednesday, 26th June
Latest time for acceptance and payment in full	3.00 p.m. Friday, 28th June
Latest time for splitting, fully paid	3.00 p.m. on Wednesday, 24th July
Latest time for registration of renunciation	3.00 p.m. on Friday, 26th July
Despatch of definitive share certificates for new Ordinary shares	Friday, 16th August

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

Part I

DEFINITIONS

The following definitions apply throughout this document and the enclosed provisional allotment letter, unless the context requires otherwise:

"Bandanga"	Bandanga Limited, a company incorporated in England and Wales, which owns tea and coffee estates in Malawi
"BZW"	Barclays de Zoete Wedd Limited
"convertible loan stock"	8¾ per cent. convertible unsecured loan stock 1999/2004 of the Company
"convertible preference shares"	variable rate cumulative convertible redeemable preference shares of £1 each in the capital of the Company
"the Directors"	the directors of the Company
"the Group"	the Company and its subsidiaries as defined in section 736 of the Companies Act 1985
"Joplings"	the Joplings division of the Group, comprising Tynedale Park and department stores known as Joplings, Robbs and Woodwards
"Merchant" or "the Company"	Merchant Retail Group plc
"NSW"	Normans Superwarehouses Limited, a wholly-owned subsidiary of Merchant
"new Ordinary shares"	the 18,602,940 new Ordinary shares to be issued pursuant to the Rights Issue
"the Official List"	the Official List of The London Stock Exchange
"Ordinary shares"	ordinary shares of 10p each in the capital of the Company
"preference shares"	5 per cent. cumulative preference shares of £1 each in the capital of the Company
"provisional allotment letter"	either or both of the renounceable provisional allotment letters despatched to Qualifying holders entitled thereto pursuant to the Rights Issue
"Qualifying holders"	holders of Ordinary shares and holders of convertible loan stock on the register at the close of business on the Record date
"Record date"	Thursday, 30th May 1991
"the Rights Issue"	the issue by way of rights of the new Ordinary shares, details of which are set out in this document
"the Share Option Schemes"	the Merchant Retail Group plc Savings Related Share Option Scheme and the Merchant Retail Group plc Executive Share Option Scheme
"The London Stock Exchange"	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
"Underwriting Agreement"	an agreement dated 5th June 1991 between the Company and BZW, a summary of which is set out on page 20 of this document

Part II



(Registered in England No. 1465195)

Directors:
Michael Swan
David Wallis
Mike Jones
Frank Clarke
David Wadham
Philip Newton
Michael Johns

Registered Office:
6 Old Lodge Place
St Margarets Road
Twickenham
Middlesex TW1 1RQ

6th June 1991

To the holders of Ordinary shares and convertible loan stock and, for information only, to the holders of preference shares and convertible preference shares and the holders of options under the Share Option Schemes

Dear Shareholder or holder of convertible loan stock

**PRELIMINARY ANNOUNCEMENT OF RESULTS AND
RIGHTS ISSUE OF 18,602,940 NEW ORDINARY SHARES
AT 33p PER SHARE**

Your Directors announced yesterday the Group's preliminary results for the year ended 30th March 1991, which show a profit before taxation of £3.4 million (1990: £3.0 million). The Directors are proposing a final dividend per share of 1.3p (1990: 1.2p), making a total for the year of 2.4p (1990: 2.3p). Your Directors also announced that the Company is raising approximately £5.8 million, net of expenses, by means of a rights issue of 18,602,940 new Ordinary shares at 33p per share. The Rights Issue is being made to holders of Ordinary shares and holders of convertible loan stock on the basis of 1 new Ordinary share for every 4 Ordinary shares or £2.5765 nominal of convertible loan stock held at the close of business on 30th May 1991.

Save for the 615,981 new Ordinary shares for which your Directors have irrevocably undertaken to subscribe or procure subscribers, the Rights Issue has been underwritten by BZW. The brokers to the issue are de Zoete & Bevan Limited.

I am writing to set out the preliminary announcement of results for the year ended 30th March 1991, to give you details of the Rights Issue and to explain why your Directors consider that the Rights Issue is in the best interests of the Company.

Preliminary announcement of results for the year ended 30th March 1991

The preliminary results for the year ended 30th March 1991 announced yesterday show a 24 per cent. increase in trading profit to £7.1 million (1990: £5.8 million) and a 12 per cent. increase in profit before taxation to £3.4 million (1990: £3.0 million). Your Directors are recommending a final dividend of 1.3p per share, making a total of 2.4p for the year (1990: 2.3p).

MERCHANT RETAIL GROUP PLC

Trading profits of £7.1 million and earnings per share of 3.21p both show considerable progress in the year. Profits from NSW increased by 39 per cent. and Joplings' profits increased by 25 per cent.

This year's results are the first from the new management team. The record trading profit was achieved against one of the most difficult retail environments for many years. This vindicates the decision taken by your Board to concentrate our strengths on the core retail businesses.

The full text of the preliminary announcement is set out in Part III of this document.

Current trading and prospects

Sales in those departments which are weather related (such as garden products) have suffered from the low temperatures in April and the first three weeks in May. Overall, however, progress made in trading performance over the last year has been sustained in both divisions.

Although it is too early to give an indication of results for the current year, your Directors have been encouraged by progress to date and are optimistic about the outcome for the year as a whole.

Background to the Rights Issue

In June 1990, following Board changes which involved the appointment of myself as Chairman and David Wallis as Chief Executive and following a detailed strategic review of the Group's activities, your Board announced a restructuring plan. This involved concentrating on the retailing strengths of the NSW supermarket division in the South-West and the Joplings department store division based in the North-East and selling or closing all non-core businesses. The plan has been largely achieved, with the rationalisation of the NSW board, the implementation of third party distribution for the NSW stores, the closure of three low-performing NSW stores, the sale of the businesses of Wallis Frozen Foods and Standrings and the closure of Hermitage Wine Cellars.

The principal remaining tasks are the sale of Bandanga, for which negotiations are progressing; the completion of the rationalisation of the NSW head offices, whereby the functions of the two existing head offices will be combined on a newly-acquired single site; and the sale of NSW's vacant Eastbourne, Hove and Swansea properties and the former Wallis head office in Leeds when suitable opportunities arise.

Reasons for the Rights Issue

Your Directors consider that the Group is now ready for the next stage of its development. Its two divisions, NSW and Joplings, have performed well despite the recession. During the year ended 30th March 1991, NSW increased its trading profit by 39 per cent. from £3.2 million to £4.4 million and Joplings increased its trading profit by 25 per cent. from £2.1 million to £2.6 million. Within NSW, margins have increased as a result of improved distribution arrangements and the implementation of more effective marketing and cost-control policies by new management. NSW's value-for-money formula over the years has attracted a loyal customer base which has proved to be resilient to stores opening in competition. In addition, Joplings continues to trade well. Its customer base in the North-East has been less affected by the general downturn in consumer spending. In particular, your Board has been pleased with the initial indications of success at Tynedale Park, the innovative retail concept located at Hexham, which is based around a garden centre with additional retail areas managed on department store lines.

Your Directors believe that NSW and Joplings are well placed to expand, principally by organic growth. Following the improvements at NSW to date, your Board intends first, to move the NSW head offices to a single freehold site at Exminster outside Exeter. This will generate cost savings for NSW and aid the further development of central functions capable of supporting growth in this division with little extra cost. Secondly, the Board intends to develop new stores in the South-West. It has already

identified a number of towns suitable for NSW stores and expects to acquire and develop two sites and to relocate an existing store over the next year. Thirdly, your Directors are currently analysing and refining the Tynedale Park concept to determine the optimum formula for the development of new sites in the North-East along similar lines.

The net proceeds from the Rights Issue will provide the Group with the capital to pursue the expansion plan outlined above. Pending investment, the proceeds and any from the sales of the vacant properties or Bandanga will be used to reduce the Group's borrowings.

Terms of the Rights Issue

The Company is offering 18,602,940 new Ordinary shares at 33p per share by way of rights to Qualifying holders on the register at the close of business on 30th May 1991 on the basis of:

1 new Ordinary share for every 4 Ordinary shares or £2.5765 nominal of convertible loan stock then held

and so in proportion for holdings of greater amounts.

Fractions of new Ordinary shares will not be allotted to Qualifying holders and fractional entitlements will be aggregated and sold, subject to the Rules of The London Stock Exchange, for the benefit of the Company.

The new Ordinary shares will, when fully paid, rank *pari passu* in all respects with the existing Ordinary shares and will entitle holders to all dividends hereafter declared, made or paid, save for the final dividend recommended in respect of the year ended 30th March 1991. A provisional allotment letter in respect of your entitlement to new Ordinary shares is enclosed.

The Rights Issue is conditional upon the admission of the new Ordinary shares to the Official List of The London Stock Exchange becoming effective. This is expected to occur on 7th June 1991 and dealings, nil paid, are expected to begin on that date. The Rights Issue is also conditional on the Underwriting Agreement having become unconditional and not having been terminated in accordance with its terms.

The terms and conditions of the Rights Issue, including full details of the procedure for acceptance and payment, are set out in Part IV. The attention of Qualifying holders resident overseas is drawn to paragraph 9 of Part IV.

Taxation

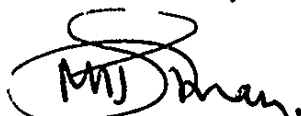
Information regarding United Kingdom taxation in relation to the Rights Issue is set out in paragraph 8 of Part IV of this document. If you are in any doubt as to your tax position, you should consult your own professional adviser immediately.

Further information

Your attention is drawn to the following additional information set out in this document:

- Part III: Preliminary announcement of audited consolidated results for the year ended 30th March 1991
- Part IV: Terms and conditions of the Rights Issue
- Part V: General information

Yours sincerely



Michael Swan
Chairman

Part III

PRELIMINARY ANNOUNCEMENT OF AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 30th MARCH 1991

Set out below is the text of the preliminary announcement of the Group's results for the year ended 30th March 1991, which was released on 5th June 1991:

"Trading profits up 24%, EPS up 10% and final dividend increased

Trading profits of £7.1 million and earnings per share of 3.21p both show considerable progress in the year. Profits from Normans Superwarehouses increased by 39 per cent. and Joplings' profits increased by 25 per cent.

This year's results are the first from the new management team. The record trading profit was achieved against one of the most difficult retail environments for many years. This vindicates the decision taken to concentrate our strengths on the core retail businesses.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	30.3.91 £000	31.3.90 £000	
Turnover			
Normans Superwarehouses	112,424	113,519	
Joplings	36,710	31,329	
Bandanga	834	865	
Discontinued businesses	—	14,705	
	<u>149,968</u>	<u>160,418</u>	
Trading profits			
Normans Superwarehouses	4,430	3,197	+39%
Joplings	2,624	2,097	+25%
Bandanga	55	107	
Discontinued businesses	10	359	
	<u>7,119</u>	<u>5,760</u>	<u>+24%</u>
Central costs and other items	(730)	(681)	
Property and investments	14	140	
Interest	(3,030)	(2,212)	
	<u>3,373</u>	<u>3,007</u>	
Profit on ordinary activities before taxation	<u>(1,055)</u>	<u>(919)</u>	
Taxation			
	2,318	2,088	
Profit on ordinary activities after taxation	(110)	(86)	
Preference dividend	(78)	(78)	
Minority interests			
	<u>2,130</u>	<u>1,924</u>	
Profit attributable to ordinary shareholders			
Extraordinary item	—	(621)	
Ordinary dividend	(1,593)	(1,526)	
	<u>537</u>	<u>(223)</u>	
Retained profit/(loss)			
	3.21p	2.92p	
Earnings per share	2.40p	2.30p	
Dividend per share	66,352,000	65,943,000	
Weighted average number of shares in issue			

The financial information set out above does not constitute the Company's statutory accounts for the years ended 30th March 1991 and 31st March 1990, but has been derived from those accounts. Statutory accounts for the financial year ended 31st March 1990 have been delivered to the Registrar of Companies. The statutory accounts for the financial year ended 30th March 1991 will be delivered following the Company's next Annual General Meeting. The auditors have reported on accounts for both years; their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

MERCHANT RETAIL GROUP PLC

A year ago a plan to reorganise the Group was announced and was reflected in the extraordinary charge of £621,000 in the 1990 accounts. The majority of the tasks have now been completed:

- The Wallis Frozen Foods and Standrings businesses have been sold.
- Hermitage Wine Cellars has been closed down.
- Three Normans Superwarehouses were closed down.
- Normans Superwarehouses has moved to third party distribution.
- The Normans Superwarehouses Board was rationalised.
- Group head office was reorganised.

The following remains to be completed:

- Sale of Bandanga, the overseas plantations.
- Sale of the three closed Normans Superwarehouses.
- Sale of the former Wallis head office in Leeds.
- Relocation of the Normans Superwarehouses head offices to one site.

There has been interest in Bandanga and negotiations are progressing. The properties listed above are proving difficult to sell in the current market. A suitable property for the Normans Superwarehouses head office has now been purchased.

Normans Superwarehouses' trading profits increased by 39 per cent. to £4.4 million. Sales were slightly lower than the previous year, reflecting the closure of three stores. Like-for-like sales increased by 9 per cent., of which 6 per cent. was due to inflation. Normans Superwarehouses' net trading margin has also improved to 3.9 per cent. on turnover compared to 2.8 per cent. in the previous year. The product range was reviewed and marketed with a clear target customer in mind. Efficient distribution reduced out-of-stocks and further strengthened the customer offer thereby increasing sales. While maintaining a competitive pricing policy, the gross margin was improved by over 1 per cent. In addition, reductions in shrinkage were achieved through better management control.

Joplings' trading profits increased by 25 per cent. to £2.6 million. Sales increased in the North-East department stores where the customer base was broadened and margins improved. The effects of the economic recession were more noticeable at the Midlands operations which, nevertheless, continued to contribute to divisional profits. During the year the final phase of Tynedale Park in Hexham was opened. This new retail concept, a unique home and garden hyperstore, shows considerable promise. It is now being refined and analysed carefully with a view to further developments of stores of this type. The net divisional trading margin of 7.1 per cent. on turnover compared to 6.7 per cent. in the previous year.

Net bank borrowings amounted to £16.2 million at 30th March 1991, up 6 per cent. compared to the previous year-end. £4.4 million of these borrowings relate to the internal financing of consumer credit associated with the in-house chargecard at Joplings. Interest costs increased by £818,000. No interest was capitalised in the year compared to £867,000 in the previous year (which was mainly in respect of Tynedale Park).

Sales in those departments which are weather related (such as garden products) have suffered from the low temperatures in April 1991 and the first three weeks in May 1991. Overall, however, progress made in trading performance over the last year has been sustained in both divisions. Although it is too early to give an indication of results for the current year, the Directors have been encouraged by progress to date and are optimistic about the outcome for the year as a whole.

The Directors propose paying a final dividend of 1.3p (1990: 1.2p) to make 2.4p (1990: 2.3p) for the year. The final dividend will be payable on 1st October 1991 to shareholders on the register on 5th July 1991.

It is expected that the Annual Report will be posted to shareholders in July and that the Annual General Meeting will be held in September."

Part IV

TERMS AND CONDITIONS OF THE RIGHTS ISSUE

1. Details of the Rights Issue

The Company is raising approximately £5.8 million, net of expenses, by means of a Rights Issue of 18,602,940 new Ordinary shares. The new Ordinary shares are being offered by way of rights at 33p per share to holders of Ordinary shares and convertible loan stock on the register at the close of business on 30th May 1991 on the following basis:

1 new Ordinary share for every 4 Ordinary shares or £2.5765 nominal of convertible loan stock then held

and so in proportion for any greater number of Ordinary shares or larger nominal amount of convertible loan stock. Fractions of new Ordinary shares will not be allotted to Qualifying holders and fractional entitlements will be aggregated and sold, subject to the Rules of The London Stock Exchange, for the benefit of the Company.

The new Ordinary shares will, when fully paid, rank *pari passu* in all respects with the existing Ordinary shares, save for the right to receive the final dividend in respect of the year ended 30th March 1991.

Application has been made to the Council of The London Stock Exchange for the new Ordinary shares to be admitted to the Official List and the Council has conditionally agreed to such admission. It is expected that such admission will become effective and that dealings in the new Ordinary shares will commence, nil paid, on Friday, 7th June 1991.

The Rights Issue is conditional on the admission of the new Ordinary shares to the Official List becoming effective not later than 10.00 a.m. on Friday, 7th June 1991, or such later time and/or date as the Company and BZW may agree. The Rights Issue is also conditional on the Underwriting Agreement having become unconditional and not having been terminated in accordance with its terms.

The attention of Qualifying holders resident overseas is drawn to paragraph 9 below.

2. Action to be taken

(a) *Procedure for acceptance and payment*

The provisional allotment letter enclosed with this document sets out the holding of Ordinary shares or convertible loan stock on which your entitlement is based and the number of new Ordinary shares which have been provisionally allotted to you and for which you are entitled to subscribe. The provisional allotment letter contains full details regarding acceptance and payment and the procedure to be followed if you wish to dispose (whether before or after payment) of all or part of your entitlement.

To take up your entitlement in whole or in part, you must lodge your provisional allotment letter in accordance with the instructions thereon, together with a remittance for the due amount, either by post or by hand with Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL or by hand only with Stentiford Close Registrars Limited, c/o Jeffreys Henry, Finsgate, 5-7 Cranwood Street, London EC1V 9EE so as to arrive in any case not later than 3.00 p.m. on 28th June 1991, or by delivery of first post on the first business day following 28th June 1991, if the Company exercises its right to accept late payment by post. A first-class mail reply-paid envelope is enclosed for this purpose.

Cheques and bankers' drafts must be in pounds sterling, made payable to "Stentiford Close Registrars Limited" and crossed "Not negotiable — Merchant Rights Issue" and drawn on a bank in the United Kingdom which is either a member of the Clearing Houses Association or which has arranged for its cheques and bankers' drafts to be cleared through the facilities provided for the members of that Association and must bear the appropriate sorting code in the top right hand corner. Cheques and bankers' drafts will be presented for payment upon receipt and it is a term of the Rights Issue that cheques shall be honoured on first presentation. No interest will be allowed on payments made before they are due. All enquiries in connection with the provisional allotment letters should be addressed to Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL (telephone 0376 515755).

(b) *Renunciation and splitting*

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

If a Qualifying holder wishes to have some only of the new Ordinary shares registered in his name and to transfer the rights to the remainder, or wishes to transfer the rights to all the new Ordinary shares but to different persons, he may have the provisional allotment letter split, for which purposes he must complete and sign Form X on such provisional allotment letter. The provisional allotment letter must then be lodged, by post or by hand, with Stentiford Close Registrars Limited, not later than 3.00 p.m. on 26th June 1991 (nil paid), or 24th July 1991 (fully paid), to be cancelled and exchanged for the split letters required. The number of split letters required and the number of shares to be comprised in each should be stated in an accompanying letter.

(c) *Registration in names of persons other than Qualifying holders originally entitled*

The renounee or his agent must complete Form Y on the provisional allotment letter and lodge the entire provisional allotment letter, by hand or by post, with Stentiford Close Registrars Limited, not later than 3.00 p.m. on 26th July 1991. Registration cannot be effected unless the provisional allotment letter is fully paid.

3. **Share certificates**

Share certificates are expected to be despatched by post by 16th August 1991 to the persons entitled thereto. After such despatch provisional allotment letters will cease to be valid for any purpose whatsoever.

After 26th July 1991 new Ordinary shares will be transferable by instrument of transfer in the usual common form. Pending the issue of definitive share certificates, instruments of transfer will be certified by Stentiford Close Registrars against the lodgement of fully paid provisional allotment letters.

4. **Posting**

All documents and remittances will be sent to or by the allottees or their renounees at their risk.

5. Procedure in respect of rights not taken up

If payment in full for an entitlement to new Ordinary shares is not received by 3.00 p.m. on 28th June 1991, or by delivery of first post on the first business day following 28th June 1991, if the Company exercises its right to accept late payment by post, (whether from the original allottee or from any person in whose favour the rights to those shares have been renounced), that provisional allotment will be deemed to have been declined and will lapse. Any new Ordinary shares not taken up by 3.00 p.m. on 28th June 1991, or by delivery of first post on the first business day following 28th June 1991, if the Company exercises its right to accept late payment by post, will be sold, subject to the Rules of The London Stock Exchange, not later than the close of business on 3rd July 1991, if a premium over the subscription price and the expenses of sale can be obtained. Any net proceeds (after deduction of the subscription price and the expenses of sale) will be distributed *pro rata* amongst the allottees originally entitled thereto, except that individual amounts of less than £3.00 will be retained for the benefit of the Company.

6. Share Option Schemes

In accordance with the terms of the Share Options Schemes, the terms of the existing options shall be varied to take account of the Rights Issue in such manner as the Company's auditors shall certify in writing to be in their opinion fair and reasonable, subject to the prior approval of the Board of Inland Revenue. Option holders will be informed of the variations in due course.

7. Convertible preference shares

In accordance with the rights attaching to the convertible preference shares, the Company intends to exercise its option to adjust the rate of conversion so that the nominal amount of ordinary share capital of the Company to be issued for every convertible preference share converted (and proportionately for any other number of convertible preference shares converted) shall be increased by an amount (expressed in pence) equal to:

$$\frac{A \times C}{B + C}$$

where:

- (i) A equals the nominal amount (expressed in pence) of the new Ordinary shares (including any fraction of a new Ordinary share) which would have been offered to a holder of one convertible preference share had his conversion rights been exercisable and exercised in full immediately before the Record Date at the rate of conversion then applicable;
- (ii) B equals the price per share (expressed in pence) at which the new Ordinary shares are being offered to holders of Ordinary shares; and
- (iii) C equals the average of the middle market quotations (expressed in pence) on The London Stock Exchange (based on The London Stock Exchange Daily Official List) for the new Ordinary shares nil paid during the period in which the new Ordinary shares are dealt in on The London Stock Exchange nil paid.

Holders of convertible preference shares will be sent notice of the adjustment in July 1991.

8. Taxation

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

(a) *Capital gains tax*

For the purposes of United Kingdom taxation on capital gains, the amount of the subscription monies paid for the new Ordinary shares taken up by a holder of Ordinary shares will constitute an addition to the base cost of his holding of Ordinary shares. The new Ordinary shares which are so taken up will be added to that holder's existing holding and they will be treated as though they had been acquired at the same time as the existing holding. In relation to holders of convertible loan stock, the new Ordinary shares issued will be treated, for the purposes of United Kingdom taxation of capital gains, as acquired at the issue price on the date that the shares are allotted and cannot be aggregated with the existing holding of convertible loan stock. The tax position on any future disposal of any Ordinary shares will depend upon individual circumstances. The subscription monies will be indexed from the month in which payment of the subscription monies for the new Ordinary shares was made. A Qualifying holder may, depending on his circumstances, incur a liability to United Kingdom taxation on capital gains if he sells all or some of the new Ordinary shares allotted to him, or rights thereto, or allows his rights to lapse and receives a cash payment in respect thereof.

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

No stamp duty or stamp duty reserve tax will be payable on the issue of provisional allotment letters or split letters of allotment.

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

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

No stamp duty or stamp duty reserve tax will be payable on the registration of the original holders of provisional allotment letters or their renounees.

These comments are intended only as a general guide to the current tax position and may not apply to certain classes of persons, such as dealers. Any person who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult his own professional adviser.

9. Overseas holders of Ordinary shares and convertible loan stock

(a) *General*

It is the responsibility of all persons resident outside the United Kingdom who wish to apply for new Ordinary shares to satisfy themselves as to the full observance of the laws of any relevant territory in connection therewith, including obtaining all necessary governmental and other consents and complying with all relevant formalities to enable them to take up their rights.

(b) *United States of America and Canada*

As a consequence of regulations in force in the United States, the offer of new Ordinary shares under the Rights Issue will not be made to and provisional allotment letters will not be sent to Qualifying holders with registered addresses in the United States or Canada ("North American persons"). For this purpose, "United States" means the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.

New Ordinary shares which would have been provisionally allotted to North American persons will, if a net premium (after deduction of the expenses of sale) can be obtained, be sold, nil paid and the net premium will be distributed *pro rata* by cheque to, and at the risk of, those Qualifying holders to whom the new Ordinary shares would otherwise have been provisionally allotted, subject to the retention by the Company of individual amounts of less than £3.00.

(c) *South Africa*

In order to comply with South African law, provisional allotment letters sent to Qualifying holders with registered addresses in South Africa will not be renounceable. Such persons may require the approval of the South African Exchange control authorities if they wish to take up their rights. All payments must be in pounds sterling.

(d) *Republic of Ireland*

The attention of Qualifying holders resident in the Republic of Ireland is drawn to the Irish Exchange Control Regulations applicable to holders of United Kingdom securities. If such Qualifying holders wish to take up their rights, they should consult an Approved Agent in the Republic of Ireland (i.e. a bank, stockbroker or solicitor) to ensure that they obtain the necessary permission to enable them to take up their rights. All payments must be in pounds sterling.

(e) *Other overseas territories*

Persons who are resident in, or who are citizens of, or who have registered addresses in, other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any formalities to enable them to take up the new Ordinary shares provisionally allotted to them. 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 is sent for information only. All payments must be in pounds sterling.

(f) *Sale of rights*

In cases where overseas Qualifying holders are unable to take up the new Ordinary shares provisionally allotted to them, the arrangements described under "Procedure in respect of rights not taken up" in paragraph 5 above will apply.

Part V

GENERAL INFORMATION

1. Responsibility

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

2. Directors

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

Michael Swan	Chairman
David Wallis	Chief Executive
Mike Jones	Group Finance Director
Frank Clarke	Executive Director
David Wadham	Executive Director, Company Secretary
Philip Newton	Executive Director
Michael Johns	Non-executive Director

All the Directors have a business address at 6 Old Lodge Place, St Margarets Road, Twickenham, Middlesex TW1 1RQ.

3. Directors' and other interests

- (a) The interests of the Directors in the share capital of the Company, as shown in the register maintained pursuant to section 325 of the Companies Act 1985, at the date of this document are as follows:

(i) Issued share capital

	Beneficial		Convertible preference shares	
	Ordinary shares			
	Number	Per cent.	Number	Per cent.
Michael Swan	2,840,283	4.3	657,650	32.9
David Wallis	1,415,263	2.1	—	—
Mike Jones	5,895	—	—	—
Frank Clarke	170,012	0.3	27,245	1.4
David Wadham	365,510	0.6	—	—
Philip Newton	5,625	—	—	—
Michael Johns	62,500	0.1	—	—
	Non-beneficial		Convertible preference shares	
	Ordinary shares			
	Number	Per cent.	Number	Per cent.
Michael Swan	1,084,330	1.6	178,792	8.9
David Wallis	—	—	—	—
Mike Jones	—	—	—	—
Frank Clarke	—	—	—	—
David Wadham	—	—	—	—
Philip Newton	—	—	—	—
Michael Johns	1,215	—	—	—

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David Wadham has a beneficial interest in £1,575 convertible loan stock and Michael Johns has a non-beneficial interest in £12,000 convertible loan stock.

No Director has a beneficial or non-beneficial interest in the preference shares.

(ii) Share Option Schemes

	Savings Related Share Option Scheme		Executive Share Option Scheme	
	Number of Ordinary shares under option	Exercise price	Number of Ordinary shares under option	Exercise price
Michael Swan	32,142	33.60p	56,250	52.44p
David Wallis	—	—	56,250	44.44p
Mike Jones	32,142	33.60p	168,750	60.00p
Frank Clarke	32,142	33.60p	56,250	52.44p
David Wadham	21,428	33.60p	56,250	66.66p
Philip Newton	—	—	—	—
Michael Johns	—	—	—	—

(iii) Other interests

On 19th October 1990, Rosedene Investments Limited (a company owned by David Wallis and his wife) purchased the Group's 40 per cent. holding of the issued ordinary share capital of Tendachoice Meats Limited for a consideration of £20,000 in cash.

Michael Johns is a partner in Nicholson Graham & Jones, the Company's solicitors, which will receive a fee for acting in connection with the Rights Issue.

- (b) As at 4th June 1991, the latest practicable date prior to the printing of this document, the Company had been notified of the following interests representing 3 per cent. or more of the issued shares comprised in the following classes of share capital of the Company:

	Number of Ordinary shares	Per cent. of issued Ordinary shares
Ordinary shares		
Chatsworth Management Services Limited	3,700,000	5.6
Equitable Life Assurance Society	2,882,991	4.3
Barclays Bank PLC (non-beneficial holding)	2,400,977	3.6
Colonial Mutual Group (UK Holdings) Ltd	2,252,894	3.4
Mr M.H. Stapleton (non-beneficial holding)	2,254,113	3.4
	Number of preference shares	Per cent. of issued preference shares
Preference shares		
Jove Investment Trust Limited	53,150	50.6
Danae Investment Trust Limited	30,000	28.6

- (c) Save as set out above, the Company has not been notified of any interests representing 3 per cent. or more of the issued shares comprised in any class of share capital of the Company.
- (d) Save as disclosed herein, no Director is or has been interested in any transactions which are or were unusual in their nature or conditions or significant to the business of the Group and which were effected by any member of the Group during the current or immediately preceding financial year or were effected by any member of the Group during an earlier financial year and remain in any respect outstanding or unperformed.

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4. Directors' service agreements and emoluments

- (a) Philip Newton entered into a service agreement with the Company on 29th May 1991. This contract is terminable at any time by the Company giving 24 months' notice or by Philip Newton giving 6 months' notice. The current salary payable thereunder is £60,000 per annum. Frank Clarke entered into a service agreement with Joplings Limited (a wholly owned subsidiary of the Company) on 20th January 1978. This contract has been varied in respect of duration and remuneration since the Company's last Annual General Meeting and now expires on 31st July 1993 unless extended by agreement between the Company and Frank Clarke or unless terminated by Frank Clarke giving 6 months' notice.
- (b) Save as disclosed in sub-paragraph (a) above, there are no existing or proposed service contracts between the Directors and any member of the Group (other than contracts expiring or determinable by the employing company without payment of compensation, other than statutory compensation, within one year) other than contracts which have previously been made available for inspection and not subsequently varied other than in respect of annual increases in remuneration granted in accordance with the Group's normal practice.
- (c) The aggregate of the remuneration paid and benefits in kind granted to the Directors for the year ended 30th March 1991 was £514,655. There will be no variation in the total emoluments receivable by the Directors as a consequence of the Rights Issue.

5. Share capital

- (a) The following table sets out the authorised and issued share capital of the Company as it is at present and as it will be following the rights issue:

	£	Authorised Number	£	Issued and fully paid Number
Present:				
Ordinary shares	11,400,000	114,000,000	6,635,448	66,354,483
Preference shares	105,000	105,000	105,000	105,000
Convertible preference shares	2,000,000	2,000,000	2,000,000	2,000,000
	<u>13,505,000</u>		<u>8,740,448</u>	
Proposed:				
Ordinary shares	11,400,000	114,000,000	8,495,742	84,957,423
Preference shares	105,000	105,000	105,000	105,000
Convertible preference shares	2,000,000	2,000,000	2,000,000	2,000,000
	<u>13,505,000</u>		<u>10,600,742</u>	

- (b) The Directors were authorised by ordinary resolution passed on 8th September 1988 to allot relevant securities within the meaning of section 80 of the Companies Act 1985 ("the Act") up to an aggregate nominal amount of £4,877,823 (of which £275,896 has since been allotted), at any time during the period of five years from the date on which the resolution was passed. 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 (as defined in the Act) which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of the Company except to the extent disapplied by special resolution passed at the Annual General Meeting held on 13th September 1990. Such disapplication gave the Directors power to allot Ordinary shares for cash in connection with rights issues or in connection with other issues which involve up to 3,317,580 Ordinary shares, representing 5 per cent. of the then existing issued share capital of the Company.
- (c) Under the terms of the Merchant Retail Group plc Executive Share Option Scheme, which was adopted on 14th February 1985, there are outstanding options granted (at a consideration of £1 per option) to certain Directors and employees over 2,115,000 Ordinary shares (exercisable between the third and tenth anniversaries of the option grant date) as follows:

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Number of Ordinary shares under option	Exercise price per Ordinary share	Date of grant
320,625	66.66p	28th March 1985
78,750	52.44p	8th August 1986
78,750	64.88p	10th July 1987
61,875	44.44p	4th January 1988
720,000	52.44p	15th July 1988
236,250	60.00p	22nd December 1988
191,250	60.00p	14th July 1989
180,000	51.00p	21st December 1989
163,125	42.00p	13th July 1990
84,375	29.00p	4th January 1991
<u>2,115,000</u>		

- (d) Under the terms of the Merchant Retail Group plc Savings Related Share Option Scheme, which was adopted on 1st October 1981, there are outstanding options granted to certain Directors and employees over 865,134 Ordinary shares (exercisable for a period of six months after the five year savings period) as follows:

Number of Ordinary shares under option	Exercise price per Ordinary share	Date of grant
15,676	47.20p	13th August 1986
33,575	58.40p	15th July 1987
185,612	47.20p	20th July 1988
75,300	48.00p	18th October 1989
554,971	33.60p	18th July 1990
<u>865,134</u>		

- (e) The Share Option Schemes provide, in the event, *inter alia*, of a rights issue, for adjustments to be made to the exercise prices for, and/or to the number of Ordinary shares comprised in an option and/or to the maximum number of Ordinary shares over which options may be granted pursuant to the Share Option Schemes, provided that the Board is required to obtain written confirmation from the Company's auditors that such adjustments are in their opinion fair and reasonable. Such adjustments require the approval of the Inland Revenue. Notice of any such adjustments will be given to option holders by the Company.
- (f) There is currently outstanding £5,189,897 of convertible loan stock. The convertible loan stock converts into Ordinary shares on the basis of 1.5525 Ordinary shares for each £1 nominal of convertible loan stock converted. The maximum number of Ordinary shares into which the convertible loan stock can convert is 8,057,315.
- Holders of convertible loan stock have the right to convert on 30th November in each of the years 1991 to 1994 inclusive.
- (g) There are currently in issue 2,000,000 convertible preference shares, the maximum authorised amount. The convertible preference shares convert into Ordinary shares on the basis of 1.5525 Ordinary shares for each convertible preference share converted. The maximum number of Ordinary shares into which the convertible preference shares can convert is 3,105,000.
- (h) The Ordinary shares, preference shares and convertible preference shares are, and the new Ordinary shares will be, in registered form. The new Ordinary shares have not been sold to, nor are they available in whole or in part to, the public in conjunction with the application for listing, save under the terms of the Rights Issue.

- (i) Save as disclosed herein, no share or loan capital of the Company or any of its subsidiaries is under option or agreed, conditionally or unconditionally, to be put under option.

6. Rights attaching to the Ordinary shares, preference shares and convertible preference shares

There is set out below a summary of certain of the rights attaching to the Ordinary shares, preference shares and convertible preference shares. This should be read subject to the detailed provisions of the Articles of Association of the Company which are available for inspection as provided in paragraph 14 below.

(a) Ordinary shares

(i) Voting rights

Holders of Ordinary shares are entitled to receive notice of and to attend any general meeting of the Company. Every holder of Ordinary shares personally present at any such meeting (including a corporation present by a duly appointed representative) shall upon a show of hands have one vote. On a poll every holder of Ordinary shares who is present personally or by proxy shall have one vote in respect of each Ordinary share held by him.

(ii) Dividends

Subject to the dividend rights of the holders of preference shares and convertible preference shares and any other class of shares hereafter issued with a prior right to dividend, the holders of Ordinary shares are entitled to the profits of the Company available for dividend and resolved to be distributed.

(iii) Return of capital

On a return of assets on a winding-up, the assets of the Company available for distribution amongst the members shall be applied first in paying to the holders of the preference shares a sum equal to any arrears, deficiency or accrual of the dividend thereon and secondly in repaying to the holders of the convertible preference shares the amounts paid up on such shares together with a sum equal to any arrears, deficiency or accrual of the dividend thereon. The holders of the Ordinary shares and the holders of the preference shares are entitled to the balance of the assets available for distribution after such payments, subject to the prior rights attaching to any other class of shares hereafter issued.

(b) Preference shares

(i) Voting

Holders of preference shares are entitled to receive notice of and to attend any general meeting of the Company. Every holder of preference shares personally present at any such meeting (including a corporation present by a duly appointed representative) shall upon a show of hands have one vote. On a poll every holder of preference shares who is present personally or by proxy shall have ten votes in respect of each preference share held by him.

(ii) Dividends

The holders of preference shares are entitled to a fixed cumulative preferential dividend at the rate of 5 per cent. per annum on the amount for the time being paid up on such shares, payable half yearly in arrears on 1st January and 1st July in each year. The preference shares rank for a dividend in priority to the Ordinary shares, the convertible preference shares and any other class of shares hereafter issued.

(iii) Return of capital

The rights of the holders of the preference shares on a return of assets on a winding-up are set out in sub-paragraph (a) (iii) above.

(c) Convertible preference shares

(i) Voting rights

While any of the convertible preference shares remain capable of conversion, convertible preference shares shall entitle the holders to receive notice of and to attend and speak at any general meeting of the Company, but not to vote at any such meeting unless either a) the dividend on such shares is six months in arrears at the date of notice of meeting or b) the business of the meeting includes the consideration of a resolution for winding-up, for a reduction of capital or a resolution directly and adversely affecting any of the special rights attaching to the convertible preference shares in which case they will only be entitled to vote on such resolution. When entitled to vote as aforesaid, every holder of convertible preference shares shall on a poll have such number of votes as he would have had, had his convertible preference share been converted into Ordinary shares at the rate of conversion then applicable.

(ii) Dividends

Holders of convertible preference shares are entitled to a cumulative preferential dividend calculated at the rate per annum equal to $7 \times (100-A)/100$ per cent; where A is the basic percentage rate of income tax applicable at the date of payment of the dividend in question. The dividend is payable half yearly in arrears on 1st January and 1st July in every year. The convertible preference shares rank for dividend after payment of the fixed cumulative preferential dividend on the preference shares but in priority to the Ordinary shares and any other class of shares hereafter issued.

(iii) Return of capital

On a return of capital, holders of convertible preference shares are entitled to repayment of the amounts paid up on such shares together with a sum equal to any arrears, deficiency or accrual of the dividend thereon but not to any further or other right of participation in the assets of the Company. The convertible preference shares rank for return of capital in priority to the Ordinary shares and the preference shares (save in respect of any arrears, deficiency or accrual of the dividend on the preference shares) and in priority to any other class of shares hereafter issued.

(iv) Conversion

The convertible preference shares are convertible into Ordinary shares during the month of November in each of the years 1991 to 1997 at the rate of 15.525p in nominal amount of Ordinary share capital for every £1 in nominal amount of preference share capital converted. Following conversion of at least 75 per cent. of the convertible preference shares the Company has the right to require conversion of the remainder, but in such event the holders of the convertible preference shares may instead require the Company to redeem such shares at par. Holders of convertible preference shares are also entitled to exercise rights of conversion in the event of a change of control of the Company as a result of a general offer or on a winding-up of the Company.

(v) Redemption

The Company shall, on 31st December 1997, or (if later) after obtaining any requisite consent to the redemption from the trustees of the convertible loan stock, redeem at par all the convertible preference shares remaining unconverted.

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(d) **Transfer of shares**

All transfers of shares may be effected by transfer in writing in the usual common form or (in the case of transfers of convertible preference shares) in any form acceptable to the Directors. The instrument of transfer must be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The Directors may without assigning any reason, refuse to register any transfer of shares not fully paid up made to any person not approved by them, or made by any member jointly or alone indebted or under any liability to the Company. The Directors may also refuse to register transfers of shares in certain other circumstances. There are additional restrictions on the transfer of convertible preference shares and the Directors may in their absolute discretion decline to register any transfer of such shares which is not made from one holder of such shares to another such holder.

(e) **Unclaimed dividend**

Any dividend unclaimed after the expiration of twelve years from the date appointed for payment may be forfeited by resolution of the Board and revert to and become the property of the Company.

7. Indebtedness and cash

At the close of business on 18th May 1991, the Group had outstanding the following indebtedness:

	£
Convertible loan stock	5,189,897
Secured bank loans	15,565,358
Secured bank overdrafts	2,498,270
	<u>23,253,525</u>

In addition, on 18th May 1991, the Group had contingent liabilities under guarantees of £250,000. At the close of business on 18th May 1991, the Group had available cash balances of £356,014.

Save as disclosed herein, and apart from intra-Group liabilities, neither the Company nor any of its subsidiaries had at the close of business on 18th May 1991 any loan capital (including term loans) outstanding or created but unissued or any mortgages, charges, debentures or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities and acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, finance leases or guarantees or other material contingent liabilities.

8. Working capital

The Directors are of the opinion that, taking into account existing bank and other facilities and the net proceeds of the Rights Issue, the Group has sufficient working capital for its present requirements.

9. Material contracts

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

- (a) An agreement dated 30th March 1990 between Fieldsman Preserves Limited, Fieldsman Drinks Limited and Isaac Standring & Co. Limited (each company being a wholly owned subsidiary of the Company) (together "the Vendor") (1) Marplace (Number 240) Limited (2) and Michael Roger Willcocks (3) whereby the Vendor sold the drinks wholesaling business carried on under the name "Isaac Standring & Co." for a consideration of £693,243 in cash.

- (b) An agreement dated 23rd April 1990 between the Company (1) Wallis Frozen Foods Limited ("Wallis") (2) and Farm Foods (Aberdeen) Limited (3) whereby the Company sold certain leasehold properties and Wallis sold its frozen food business and certain assets including freehold and leasehold properties, for an aggregate consideration of £2,930,165 in cash.
- (c) Undertakings dated 5th June 1991 by each of the Directors in favour of the Company and BZW whereby they have irrevocably undertaken that they will take up all or part of their entitlements to new Ordinary shares as follows:

	Number of new Ordinary shares to be taken up
Michael Swan	431,998
David Wallis	70,000
Mike Jones	1,473
Frank Clarke	42,503
David Wadham	61,101
Philip Newton	1,406
Michael Johns	7,500
	<hr/> 615,981 <hr/>

- (d) An agreement (the "Underwriting Agreement") dated 5th June 1991 between the Company (1) and BZW(2) whereby BZW agreed to underwrite the issue of the new Ordinary shares (other than those the subject of the undertakings of the Directors referred to in paragraph (c) above) for an underwriting commission of two per cent. of the aggregate subscription of such new Ordinary shares out of which BZW will pay sub-underwriting commissions and a distribution commission to the brokers to the Rights Issue. In addition, the Company has agreed to pay an advisory fee to BZW and to meet the other expenses of the Rights Issue, including BZW's legal costs.

The Underwriting Agreement is conditional, *inter alia*, upon the admission of the new Ordinary shares to the Official List becoming effective by 10.00 a.m. on 7th June 1991 or such later date and/or time as the Company and BZW may agree.

The Underwriting Agreement includes:

- (i) representations, warranties and an indemnity given by the Company to BZW; and
- (ii) provisions which permit BZW to terminate its obligations under the Underwriting Agreement if at any time prior to the new Ordinary shares being admitted to the Official List any of the warranties or representations is or becomes untrue or inaccurate or misleading or the Company otherwise fails to comply with any of its obligations under the Underwriting Agreement in any respect which in any such case is material in the context of the underwriting (in each case in the reasonable opinion of BZW) and in circumstances of force majeure.

10. Litigation

NSW is the defendant in proceedings brought by DM Estates Limited ("the Lessor") to recover rent payable for premises leased by NSW. The current rent payable under the leases amounts to £88,750 per annum and the term of each lease expires in 1997. NSW vacated the premises in