

OF HUNGERFORD
John Lewis

John Lewis
of
Hungerford plc

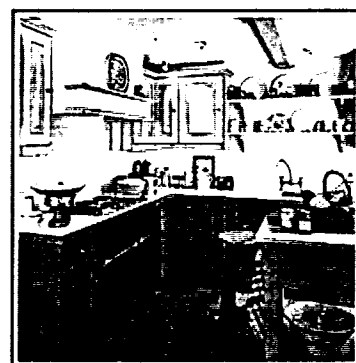
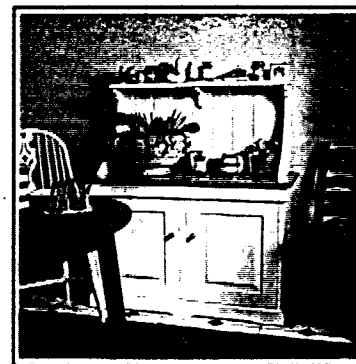
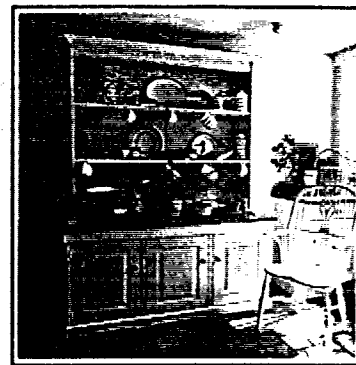
Placing and Admission to AIM

Nominated Adviser

Smith & Williamson
Regulated by the Securities
and Futures Authority Limited
Nominated Adviser approved
by the London Stock Exchange

Nominated Broker

Ellis & Partners Limited
Regulated by the Securities
and Futures Authority Limited
Member of the
London Stock Exchange



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A copy of this document which has been drawn up in accordance with, and which constitutes a prospectus for the purposes of, the Public Offers of Securities Regulations 1995 ("Regulations") has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the Regulations.

To the best of the knowledge of the Directors of John Lewis of Hungerford plc ("the Company"), whose names appear on pages 10 and 11 of this document, the information contained in this document is in accordance with the facts and makes no omission likely to affect the import of such information. The Directors of the Company accept responsibility accordingly.

APPLICATION WILL BE MADE FOR THE WHOLE OF THE ORDINARY SHARE CAPITAL OF THE COMPANY IN ISSUE IMMEDIATELY FOLLOWING THE PLACING TO BE ADMITTED TO TRADING ON THE ALTERNATIVE INVESTMENT MARKET OF THE LONDON STOCK EXCHANGE. AIM IS A MARKET DESIGNED PRIMARILY FOR EMERGING OR SMALLER COMPANIES TO WHICH A HIGHER INVESTMENT RISK THAN THAT ASSOCIATED WITH ESTABLISHED COMPANIES TENDS TO BE ATTACHED. A PROSPECTIVE INVESTOR SHOULD BE AWARE OF THE POTENTIAL RISKS IN INVESTING IN SUCH COMPANIES AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION AND CONSULTATION WITH HIS OR HER OWN INDEPENDENT FINANCIAL ADVISER. THE RULES OF AIM ARE LESS DEMANDING THAN THOSE OF THE OFFICIAL LIST. IT IS EMPHASISED THAT NO APPLICATION IS BEING MADE FOR ADMISSION OF THE ORDINARY SHARES TO THE OFFICIAL LIST. FURTHER, THE LONDON STOCK EXCHANGE HAS NOT APPROVED THE CONTENTS OF THIS DOCUMENT.

Copies of this document will be available free of charge to the public during normal business hours on any day (Saturdays, Sundays and public holidays excepted) at the offices of Smith & Williamson, No 1 Riding House Street, London W1A 3AS from the date of this document and for 14 days from the time and date on which Admission takes place, which is expected to be 27 January 1997.

The whole text of this document should be read and in particular your attention is drawn to the section entitled "RISK FACTORS" on page 12 of this document. It is expected that dealings in the Ordinary Shares will commence on 27 January 1997.

John Lewis of Hungerford plc

(Incorporated in England & Wales under the Companies Acts 1948 to 1976 with Registered No. 1317377)

PLACING

of

41,666,666 Ordinary Shares of 0.1p each at a price of 3p per share

by

ELLIS & PARTNERS LIMITED

as

NOMINATED BROKER

and

**APPLICATION FOR ADMISSION TO TRADING ON THE
ALTERNATIVE INVESTMENT MARKET**

by

SMITH & WILLIAMSON

as

NOMINATED ADVISER

Share Capital following the Placing

Authorised Ordinary Shares		Issued and Fully Paid Ordinary Shares	
Number	Amount	Number	Amount
250,000,000	£250,000	138,333,333	£138,333

The Ordinary Shares now being placed will rank *pari passu* in all respects with the existing Ordinary Shares and will rank in full for all dividends and other distributions hereafter paid or made in respect of the ordinary share capital of the Company.

Smith & Williamson, which is regulated by the Securities and Futures Authority Limited, is the Company's nominated adviser for the purpose of the AIM Admission Rules. Its responsibilities as the Company's nominated adviser under the AIM Admission Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire Ordinary Shares in reliance on any part of this document. No representation or warranty, express or implied, is made by Smith & Williamson as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued).

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KEY INFORMATION

The following information should be read in conjunction with the full text of this document from which it is derived.

- The Company is engaged in the design, manufacture and retailing of kitchens, free standing furniture and accessories. Its products are sold principally in the UK but also in mainland Europe.
- The Company has concentrated on building a brand identity for its quality "lifestyle" products.
- The business was established 24 years ago, the Company was incorporated 5 years later. It has an experienced executive management team.
- Since the early 1990's the Company has shown a consistent record of increasing profits and strong positive cash flows.
- The Company has no bank or long term debt and a strong balance sheet.
- The Company intends to maintain its existing policy of paying an annual dividend.
- Approximately 30.1% of the Company's Enlarged Share Capital is being placed, including 2.4% of the Enlarged Share Capital on behalf of John Lewis. The balance of 27.7% is being issued by the Company to raise approximately £900,000 net of expenses.
- It is intended that the net proceeds of the Placing will be used to take a 999 year lease over a site of land and to construct a purpose-built unit to accommodate the Company's manufacturing and administrative operations.
- The illustrative financial projections set out in Part 3 of this document (which are not intended as forecasts and should not be relied upon by investors) show a projected growth in profits before tax from over £246,000 in the year ended 31 August 1996 to £400,000 in the year ending 31 August 1997.

THIS SUMMARY HAS BEEN DERIVED FROM THE WHOLE OF THIS DOCUMENT AND SHOULD BE READ IN CONJUNCTION WITH THE FULL DOCUMENT, PARTICULARLY THE SECTION HEADED **RISK FACTORS** ON PAGE 12.

PLACING STATISTICS

Placing Price per Ordinary Share	3p
Number of Ordinary Shares being placed - on behalf of the Company	38,333,333
- on behalf of John Lewis	3,333,333
Number of Ordinary Shares in issue following the Placing	138,333,333
Market capitalisation following the Placing at the Placing Price	£4.15 million
The value of the Placing at the Placing Price is	£1.25 million
Estimated proceeds of the Placing receivable by the Company net of expenses	£900,000
Projected earnings per share for the year ending 31 August 1997 on the basis of the Illustrative Financial Projections set out in Part 3	
- excluding the New Ordinary Shares	0.3 pence
- including the New Ordinary Shares	0.22 pence
Projected price/earnings ratio for the year ending 31 August 1997 on the basis of the earnings per share (as above) at the Placing Price	
- excluding the New Ordinary Shares	10
- including the New Ordinary Shares	13.6

NOTE The projected earnings of £300,000 as set out on page 23 of this document and used in deriving the projected earnings per share figures above excludes any benefit arising from the Placing proceeds (other than bank interest). The projected (post tax) earnings per share and projected price earnings ratio above have therefore been stated on the basis of both the number of Ordinary Shares in issue prior to completion of the Placing being 100,000,000 and the number of Ordinary Shares in issue immediately following Admission and the Placing being 138,333,333 at the Placing Price of 3p.

DEFINITIONS

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

the "Act"	the Companies Act 1985, as amended
"Admission"	the effective admission of the Ordinary Shares (including the Placing Shares) to AIM pursuant to paragraph 16.6 of Chapter 16 of the Rules of the London Stock Exchange
"AIM"	the Alternative Investment Market of the London Stock Exchange
"AIM Admission Rules"	rules of admission to AIM
the "Company"	John Lewis of Hungerford plc
the "Directors" or the "Board"	the board of directors of the Company
"Ellis & Partners"	Ellis & Partners Limited
"Enlarged Share Capital"	the issued share capital of the Company following the Placing
"London Stock Exchange"	The London Stock Exchange Limited
"New Ordinary Shares"	38,333,333 new Ordinary Shares of 0.1p each in the capital of the Company to be issued pursuant to the Placing
"the Official List"	The Daily Official List of The London Stock Exchange
"Ordinary Shares"	Ordinary Shares of 0.1p each in the capital of the Company
the "Placing"	the conditional placing of the Placing Shares at the Placing Price as described in this document
the "Placing Price"	3p per Ordinary Share
the "Placing Shares"	the 38,333,333 New Ordinary Shares being issued by the Company pursuant to the Placing and the 3,333,333 Ordinary Shares being sold by John Lewis pursuant to the Placing
"Regulations"	the Public Offers of Securities Regulations 1995

DIRECTORS, SECRETARY AND ADVISERS

Directors:

John Llewellyn Lewis (Chairman and Chief Executive)
Richard Douglas Worthington FCA (Finance and Commercial Director)
Linda Estelle Lewis (Sales Administration Director)
Keith Arthur Bentley (Non Executive Director)

all of:

Unit 3

Limborough Road

Wantage

Oxfordshire OX12 9AJ

Company Secretary and Registered Office:

Richard Douglas Worthington FCA

Unit 3

Limborough Road

Wantage

Oxfordshire OX12 9AJ

Nominated Adviser:

Smith & Williamson

No 1 Riding House Street

London W1A 3AS

Nominated Broker:

Ellis & Partners Limited

Talisman House

16 The Courtyard

East Park

Crawley RH10 6AS

Auditors to the Company:

H W Fisher & Company

Acre House

11-15 William Road

London NW1 3ER

Reporting Accountants:

Grant Thornton

Grant Thornton House

Melton Street

Euston Square

London NW1 2EP

Solicitors to the Company and to the Admission:

Edge & Ellison

18 Southampton Place

London WC1A 2AJ

Solicitors to the Placing

Memery Crystal

31 Southampton Row

London WC1B 5HT

Principal Bankers:

Barclays Bank Plc

Barclays Business Centre

Market Place Branch

6 Market Place

Newbury, Berkshire RG14 5AY

ABN Amro

Brediusweg 12

1400 AB Bussum

Netherlands

Registrars:

Harford Registrars

Harford House

101/103 Great Portland Street

London W1N 6BH

PART 1

INFORMATION ON THE COMPANY

INTRODUCTION

The Company was incorporated on 16 June 1977.

The Company designs, manufactures and retails kitchens, free standing furniture and accessories to its customers through its showroom in Hungerford (Berkshire) and concession outlets in Liberty (Regent Street, London), Hoopers (Wilmslow, Cheshire) and Portazul (Bussum near Amsterdam, Netherlands). The Company's free standing furniture is also supplied for sale by Harrods (Knightsbridge, London). A new concession outlet in Maastricht (Netherlands) is expected to open in Spring 1997. Further concessions are planned for the UK and are being sought in mainland Europe. Manufacturing currently takes place at the Company's premises in Wantage, Oxfordshire.

Potential customers for the Company's Artisan kitchens, after seeing the Company's advertising or receiving a recommendation, typically buy the Company's "inspirational" brochure (for kitchens or furniture) which conveys the "lifestyle" theme by combining quality images with complementary scents and wood samples. Subsequently customers arrange an appointment with one of the Company's experienced designers who then works with them to complete the order. Customers are asked to pay a 50% deposit on the placing of an order. Delivery is usually within 4-5 weeks with the final balance paid prior to delivery. The Company does not hold any finished stock, only making products to order. The kitchens and furniture are manufactured at the Company's factory in Wantage.

The Company does not install the kitchens but is able to introduce customers to recommended fitters who have considerable experience of installing the Company's products. In addition the Company does not itself deliver to customers but arranges delivery by transportation companies with whom the Company has long-standing relationships. Customers pay separately for these services.

The Directors believe that the Company has established a particular niche within the fitted kitchen market. Whilst the price of its Artisan range of products is in the same price band as the products of many other manufacturers, the Company provides a highly personalised design service together with style and quality not normally associated with this price level. The Directors believe that as a result the Company is attracting a new type of customer. Such customers would not normally wish to purchase a flat pack or rigid assembly kitchen but equally may not be in a position to afford or would not wish to pay for a more costly custom built kitchen.

The Directors believe that a trading facility on AIM will generally raise the profile of the Company with potential customers and concession partners. It should also assist the Directors in their plans for an expansion of the Company's business by means of acquisitions and licensing the use of the Company's brands in areas compatible with those brand identities.

A total of 41,666,666 Ordinary Shares are being placed of which 3,333,333 are being placed on behalf of John Lewis. Following the Placing Keith Bentley will hold 66,666 Ordinary Shares representing 0.05% of the Enlarged Share Capital and John Lewis will retain a holding of 95,816,678 Ordinary Shares representing 69.3% of the Enlarged Share Capital. The balance of 38,333,333 Placing Shares being issued by the Company will raise approximately £900,000 after the expenses of the Placing. As explained below, it is the Directors' intention to use the proceeds of the Placing to acquire a 999 year lease on a site of land and arrange for the construction of a new purpose built factory unit on this land to replace the Company's existing leasehold factory premises.

The Placing Shares represent 30.1% of the Enlarged Share Capital.

BACKGROUND

John Lewis founded the business in 1972, manufacturing furniture. The Company was incorporated in 1977. During the recession of the early 1990's the business of the Company was restructured, involving the closure of several factories and showrooms and associated staff reductions. At that time the Company also rationalised its product range and introduced an innovative approach to the marketing and sales of a new range of affordable quality kitchens, furniture and accessories under the "Artisan" name. Another important element of this change was the move out of High Street shops and into "partnered" concessions with compatible retailers. This and the other changes described, helped the Company to significantly reduce the fixed overhead element of its cost structure, allowing it to provide additional customer value in its products.

These changes have resulted in a substantial increase in turnover from £1.06 million in the financial year ended 31 August 1994 to £1.66 million in the financial year ended 31 August 1996. Profits before taxation have increased from over £151,000 (as restated – see Part 2 Accountants' Report) to over £246,000 in the same period.

The Company's current manufacturing facilities at Wantage are operating close to capacity. The Directors intend to use the net proceeds of the Placing to enable the Company to move to a new purpose built factory unit which will accommodate the Company's manufacturing and administrative operations. They expect this to permit further expansion of the Company's business by virtue of a combination of the Company's increased manufacturing capacity, improved production processes and additional orders obtained through new retail concession outlets in both the UK and Europe. As further explained below, the Company has agreed, subject to contract, to take a 999 year lease on a site of land which the Directors believe will be ideal for the new factory mentioned above. The lease on the Company's existing factory expires in 2007 and does not contain any break clauses. It is therefore conceivable that the Company will not be able to terminate this lease on terms which are attractive to the Company. However, the Directors believe plans are at an advanced stage for redevelopment of the site in which case it should be possible to negotiate a surrender of the lease for these premises during 1997. Alternatively, the Directors will investigate the possibility of assignment of the lease. Nevertheless, the rental payments and associated costs of the lease have been taken into account for the purposes of the working capital statement in Part 5 of this document.

PRODUCT

The Company designs, manufactures and retails kitchens, free standing furniture and accessories direct to the public through its showrooms and the concession outlets described earlier. The Company does not install the kitchen itself but introduces its customers to experienced teams of fitters who arrange installation directly with the customer. As well as fitting the new kitchen the fitters will also remove the old kitchen and are experienced at dealing with any gas, plumbing or electrical work required.

The concession arrangements are negotiated only with retail partners whose image, prestige and customer profile are considered by the Directors to match those of the Company. Concession partners receive a proportion of sales revenues, underpinned by guaranteed minimums. These arrangements have the benefit of having reduced the fixed costs of the Company associated with the retailing of its products.

The Company believes it has achieved wide recognition for its products through long term sustained advertising in quality magazines including Period Living, Homes & Gardens, Ideal Home, Country Homes & Interiors and BBC Homes & Antiques. In addition the Company has commenced advertising in the Netherlands. The Company employs the services of two public relations companies to promote the Company and its products.

In the early 1990s the Company introduced the Artisan range of kitchens. These are "country style" kitchens, offered in 14 colours at an average order value of around £4,500. This kitchen is complemented by a like named "lifestyle" range of furniture (launched in 1996) and accessories. In association with BBC Publications, an Artisan kitchen was chosen for a showhouse at the 1996 Ideal Home Exhibition held at Earls Court (London).

The Company also offers the Drunmore Castle Kitchen (which is sold direct and not through concessions). This bespoke hand made product retails for up to £80,000 and can be delivered and installed worldwide. To complement this exclusive kitchen, the Company offers a range of period furniture built to individual customer needs.

The Company is at an advanced stage of developing a sophisticated marketing technology to identify concentrations of potential customers. This not only supports the identification of sites for new concession outlets, but also enables the Company to enhance the effectiveness and productivity of its advertising and marketing spend.

The Directors believe the Company is not only building a quality brand identity in kitchens, furniture and accessories but also one that has potential across a wider range of home products.

MARKET

As a category, kitchen furniture covers a wide spectrum of manufactured furniture and can be divided into two main sectors, namely:

- Fitted kitchen furniture; and
- Free-standing kitchen furniture

The fitted kitchen furniture market can generally be subdivided into three sectors: self-assembly (flat pack), ready assembled (rigid) and custom built. The Company operates within a niche between the last two of these three sectors.

The self-assembly (flat pack) sector is the largest of these three sectors with just over three quarters of the total fitted kitchen furniture market. It also remains the least expensive sector with just over half by value of the total kitchen furniture market. The ready assembled (rigid) sector is a more expensive sector due to the cost of factory assembly, more expensive packaging requirements to prevent damage during storage and transit and increased transport and storage costs of the larger bulky items, and accounts for just under half by value of the total fitted kitchen furniture market. The custom built sector makes up the remainder of the market and although it is relatively small, it is the most expensive sector. It consists of mainly small companies which design and manufacture kitchens on an individual basis. The difference between a ready assembled (rigid) kitchen and a custom built one is best explained by comparing an off-the-peg suit with one that is made-to-measure. In 1995, Key Note estimated that the UK retail market for kitchen furniture which includes fitted kitchens was approximately £1.2 billion. The Company currently has approximately a 1.2% share of the custom built furniture sector and a 0.3% share of the custom built and ready assembled (rigid) sectors combined.

Over the past few years the Company has received increasing interest for its products from Europe and as a result has focused on two clear macro economic drivers for its business. First, many kitchen products in Europe are of a somewhat clinical nature, which the Directors believe lack the warmer "lifestyle" characteristics of the Artisan range. Second, the large European property rental market provides a further opportunity for sales as much rented accommodation is completely unfurnished.

The fitted kitchen industry was badly hit by the recession. Fitted kitchens tend to be purchased in connection with a move to a different house and the drop in house sales during the recession therefore resulted in reduced fitted kitchen sales. The UK housing market has however recently shown signs of recovery and the Directors believe that this will have a positive effect on the fitted kitchen market as a whole. Consumer spending on kitchen furniture is estimated to have grown by 3.7% at constant 1990 prices during 1995. There has however been a definite

trend towards the purchase of more expensive fitted kitchens as consumers have felt they are less likely to move house and hence are prepared to invest more in their kitchen. More importantly, kitchens are now family rooms frequently used for entertaining, a place where parents and children can work, eat, watch television and work at a table. The Directors believe that this trend has been particularly beneficial to the Company with its Artisan range of kitchen furniture and accessories.

There are an estimated 300 companies involved in the manufacture of fitted kitchen furniture within the UK. The larger UK companies focus on the larger flat pack sector with the smaller companies focusing on the rigid and custom built sectors. There is some vertical integration in the kitchen furniture industry with several major manufacturers retailing their own products.

STRENGTHS

The Directors believe the principal strengths of the Company include:-

- a widely recognised brand identity for producing quality "lifestyle" products
- the ability to produce quality products at highly competitive prices
- a clearly defined development strategy
- a business strategy which has produced good profit margins and positive cash flows in recent years
- an experienced executive management team
- the potential for the development of a European customer base which will reduce dependence upon any single market
- the potential for further growth from new concession arrangements and increased manufacturing capacity

FINANCIAL INFORMATION AND CURRENT TRADING

The trading record of the Company as extracted from the Accountant's Report in Part 2 of this document, is summarised below:

	Year ended 31 August		
	1994	1995	1996
	Figures in £000's		
Turnover	1,057	1,318	1,657
Profit before taxation	152*	234*	247
Profit before tax as a percentage of Turnover	14.3%	17.7%	14.9%

*As restated – see Part 2 Accountants' Report

Profit margins were exceptionally enhanced in 1995 by a favourable change in sales mix and declined in 1996 by virtue of an increase in central overhead expenses and an exceptional cost (relating to arrears of rental receipts on a property sublet by the Company and costs incurred on its subsequent disposal). This was to some extent offset by an increase in the volume of sales of the Artisan range in 1996 and an improvement in overhead recovery rates.

The unaudited results for the 3 months to 30 November 1996 show turnover 17% ahead of the same stage last year. As demonstrated by the Illustrative Financial Projections referred to below and overleaf, the Directors are confident that the Company's turnover and profitability will continue to grow in the current financial year.

ILLUSTRATIVE FINANCIAL PROJECTIONS

The Illustrative Financial Projections set out in Part 3 of this document indicate the level of projected earnings per share of the Company for the year ending 31 August 1997. The Illustrative Financial Projections have been prepared by the Directors and do not constitute forecasts whether of profit or otherwise. The projections should be read in conjunction with the bases and principal assumptions on which the Illustrative Financial Projections have been

prepared to illustrate the possible results of the Company if the assumptions are correct, and with the letter from Grant Thornton dated 20 January 1997 reporting on the Illustrative Financial Projections, both as set out in Part 3 of this document. Events and circumstances frequently do not occur as expected and the actual results may differ materially from those projected. Attention is drawn in particular to the Risk Factors set out on page 12 of this document.

FUTURE PROSPECTS

The Directors believe that, following the Placing, the Company will be well placed to pursue the growth opportunities described earlier.

In late 1996, the Company began its move into Europe by contracting to open two concessions in the Netherlands the first of which opened in October 1996. The second of these concessions is expected to open in Spring 1997, thus spreading the Company's potential customer base and providing further opportunities for growth.

The Directors also believe that there is potential for further successful development and expansion of the Company's range of products. The Directors accordingly look to the future with confidence.

DIRECTORS

The Board comprises:-

John Llewellyn Lewis, aged 53, Chairman and Chief Executive

John Lewis who founded the Company trained in business management at Writtle Agriculture College, Chelmsford, and agriculture at The Royal Agricultural College, Cirencester. He subsequently worked as District Agricultural Adviser for The National Agricultural Advisory Service (subsequently ADAS) in Dorset and Wales. As Chairman and Chief Executive, he has responsibility for the running of the Company. He is responsible for the creative/design side of the Company's business and has overall responsibility for relationships with concession partners and customers.

Richard Douglas Worthington, aged 50, Finance and Commercial Director

Richard Worthington is a Chartered Accountant. He spent 20 years with Estée Lauder Cosmetics Limited latterly as Financial Director. He also supported the development of Estée Lauder's business in parts of mainland Europe and the Middle East. He was a key executive in a period of considerable growth during which Estée Lauder, from small beginnings, became a UK market leader in the premium fragrance and cosmetics sectors. He is a director of Diggle Investments Limited, a venture capital firm formed in the late 1980's specialising in the development of smaller companies in both the UK and USA. He also runs a management consultancy practice, Richard Douglas Consultants which since 1993 has provided various services to the Company. He was appointed a Director on 1 June 1994 and is responsible at Board level for strategic development and for overseeing the financial affairs of the Company which include financial planning, monitoring and control. He is supported in the latter function by outsourced accounting services. Richard Worthington is contracted to spend an average of not less than 20 hours per week on the Company's affairs.

Linda Estelle Lewis, aged 45, Sales Administration Director

Linda Lewis spent nine years working for an advertising company on market research projects, administration and client liaison. She subsequently spent four years working as a sales advertising executive. Linda joined the Company in 1986. She is responsible for sales administration at the Company's Hungerford showroom.

Linda Lewis is married to John Lewis the founder of the Company.

Keith Arthur Bentley, aged 48, Non Executive Director

Keith Bentley is a businessman with over 20 years retail experience. He is currently Managing Director of Inbake Limited, a company which provides bakery management and operator services, under concession agreement, to supermarkets throughout the UK. Inbake Limited manages over 20 outlets and employs in excess of 120 staff. He is also a bakery consultant for the Esso Petroleum Company, Limited.

Keith Bentley's extensive retail knowledge and practical experience in the management of numerous remote concessions will bring significant value to the Company during its current growth phase.

SENIOR MANAGEMENT

Paul Newby, aged 41, Production Manager

Paul Newby joined the Company in 1978. He is responsible for production and has a team of craftsmen reporting to him.

Paul Higgins, aged 29, Senior Sales and Design Manager

Paul Higgins is the Company's senior sales and design person. In addition to responsibility for sales from the Hungerford showroom, he plays a key role in the training of concession management. Paul joined the Company in 1988.

Christina Colombini, aged 35, Finance and Administration Manager

Christina Colombini joined the Company in 1987 and has day to day responsibility for the Company's financial and accounting affairs. She reports to the Financial and Commercial Director. She is supported by outsourced accounting services.

EMPLOYEES

The Company currently employs 17 full and 2 part time staff. The Directors may consider recruiting additional staff as and when the need arises and do not anticipate any difficulty in doing so. However the Company anticipates that it may be more difficult to recruit concession managers in Europe than in the UK.

EMPLOYEE SHARE OPTION SCHEME

The Directors believe that a major contribution to the Company's development in recent years has been the commitment of its employees. In recognition of this and to ensure continuing future commitment, the Company has established an Employee Share Option Scheme for which approval by the Inland Revenue is being sought. It is intended that by means of the operation of this scheme, the Company will be able to ensure that eligible employees will identify closely with the fortunes of the Company. The terms of the Company's Employee Share Option Scheme are summarised in paragraph 8 of Part 5 of this document. There are no outstanding options granted under this scheme.

In addition, John Lewis intends on Admission, to transfer to the employees by way of gift, a total of 349,989 Ordinary Shares, as a token of his personal gratitude to them.

OTHER SHARE OPTION ARRANGEMENTS

On 29 June 1994, the Company granted Richard Worthington an option exercisable within six years from the date of grant, to subscribe for such number of shares as shall represent 7% of the issued share capital of the Company immediately following the date of exercise of the option. Further details of this agreement (as amended) are set out in paragraph 3.5 of Part 5 of this document.

CORPORATE GOVERNANCE

The Company intends to comply, so far as is practicable, given the Company's size, with the recommendations of best practice in the corporate governance of public companies as set out in the Cadbury Committee Code of Best Practice. The Company will hold monthly Board meetings throughout the year. The Board is responsible for instituting financial or operational reviews and approving the Company's budgets, major items of capital expenditure and acquisitions. The Board intends that the non-executive Director will be independent of the Company's management and free from any business or other relationship which could materially interfere with the exercise of his independent judgement.

RISK FACTORS

An investment in the Company may not be suitable for all recipients of this document. Investors are accordingly advised to consult an investment adviser authorised under the Financial Services Act 1986 who specialises in investments of this kind before making their decision.

The Company's Ordinary Shares are not listed on the Official List and although the Company's securities are to be traded on AIM, AIM has only been in existence since 19 June 1995 and its future success and liquidity in the market for the Company's securities cannot be guaranteed. The value of the Company's Ordinary Shares may go down as well as up and investors may therefore not recover their original investment.

The Directors consider the following principal risk factors to be most relevant in considering an investment in the Company:-

- growth is dependent upon suitable new concession sites being found and negotiated on satisfactory terms
- competitors may emerge in the future which may adversely affect the Company's business and its growth plans

TRADE MARKS

The Company has traded for many years under the name "John Lewis of Hungerford" and the Directors believe that there is now significant brand identity associated with this name. In addition, as explained above the Company has concentrated on building a brand identity for its Artisan range of kitchen furniture and accessories. The Directors therefore believe the Company's business is dependent on the continuing right of the Company to use these names. Accordingly, the Company is seeking to protect its position by applications for registration of these names as trade marks of the Company. In the case of the "Artisan" name, there is an existing third party registration in the United Kingdom of the "Artisan" name in respect of furniture generally. The third party, after consultation with its trade mark agent, has agreed to part-surrender its trade mark so as to exclude kitchen furniture from the registration and to consent to the Company's registration and use in respect of kitchen furniture. Further details of the advice to the Company and applications by the Company to protect its trade mark position are set out in paragraph 12 of Part 5 of this document.

DIVIDEND POLICY

The Directors intend to pursue a progressive dividend policy, subject to the need to retain earnings for the future growth of the Company's business. Provided the results achieved by the Company are consistent with its Illustrative Financial Projections as set out in Part 3 of this document, it is the Directors' current intention, subject to no unforeseen circumstances, to recommend the payment of a final dividend in respect of the year ending 31 August 1997. The Company plans to pay dividends on or about 31 January following the publication of the Company's audited financial statements for each year.

REASONS FOR AND TERMS OF THE PLACING

As stated earlier, the Company's current manufacturing facilities at Wantage are close to capacity. To support planned growth the Company needs new production premises. The Directors consider the construction of a purpose built factory unit to be more beneficial to the long term future of the Company than to seek alternative premises which are already in existence. Further, the Company wishes to minimise disruption to the business and most importantly loss of its skilled labour force by ensuring any new location is within the same catchment area as its existing facilities.

The Company has agreed, subject to contract, to take a 999 year lease over a site of land within an existing business park upon which it can custom build a factory unit and at the same time secure additional land for future expansion. This property is within 2 miles of the Company's existing factory premises.

The Directors believe that a trading facility on AIM will generally raise the profile of the Company and most importantly enhance its reputation with potential concession partners and assist the Directors in their plans for the expansion of the Company's business by means of acquisitions.

A total of 41,666,666 Ordinary Shares are being placed, of which 3,333,333 are being sold on behalf of John Lewis. Immediately following the Placing, John Lewis will retain a holding of 95,816,678 Ordinary Shares representing 69.3% of the Enlarged Share Capital. The balance of 38,333,333 Placing Shares are being issued by the Company to raise approximately £900,000 net of the expenses of the Placing. As stated earlier the Directors envisage using the proceeds of the Placing to facilitate the relocation of the Company's manufacturing and administrative operations to new factory premises.

The Placing Shares represent 30.1% of the Enlarged Share Capital. The places of the Placing Shares will include Keith Bentley, a Director who will acquire a total of 66,666 Placing Shares at the Placing Price.

Ellis & Partners have undertaken to subscribe for or to purchase any Placing Shares not taken up under the Placing.

Further details regarding the Placing Agreement, and the Directors' undertakings in respect thereof, are set out on pages 33 and 34 in paragraph 9 of Part 5 of this document.

MARKETABILITY OF THE ORDINARY SHARES

Application will be made for the whole of the Ordinary Shares to be admitted to trading on AIM. No application is being made for the admission of any Ordinary Shares to the Official List.

AIM, which was launched in February 1995 by the London Stock Exchange, commenced trading on 19 June 1995. AIM is intended to give greater exposure to emerging or smaller companies wishing to have their shares traded. Shares of companies admitted to AIM are traded on a segment of the enhanced version of the Stock Exchange Alternative Trading Service, SEATS PLUS, which enables buyers and sellers to trade with each other through the London Stock Exchange's trading system. It is anticipated that one or more market makers will make a market in the Ordinary Shares once trading on AIM in the Ordinary Shares commences. However the future success and liquidity of AIM cannot be guaranteed. It is expected that definitive title to Ordinary Shares acquired pursuant to the Placing will be delivered either under CREST where delivery is requested in uncertificated form, or by first class post by no later than 3 February 1997 where delivery is requested in certificated form.

PART 2

ACCOUNTANTS' REPORT

For the three years ended 31 August 1996

Grant Thornton 

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The Directors
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and

The Partners
Smith & Williamson
No1 Riding House Street
London
W1A 3AS

and

The Directors
Ellis & Partners Limited
Talisman House
16 The Courtyard
East Park
Crawley
RH10 6AS

20 January 1997

Dear Sirs

John Lewis of Hungerford plc

Introduction

We have examined the audited financial statements of John Lewis of Hungerford plc ("the Company") for the three years ended 31 August 1996.

The principal activities of the Company throughout the period under review have been the design, manufacture and retailing of kitchens, free standing furniture and accessories both in the UK and mainland Europe.

The Company was incorporated on 16 June 1977 with the name John Lewis of Hungerford Limited.

On 8 January 1997 the Company was re-registered as a public limited company under the name John Lewis of Hungerford plc.

The financial statements of the Company for the two years ended 31 August 1995 were audited by Hacker Young of St Alphage House, 2 Fore Street, London EC2Y 5DH. The financial statements of the Company for the year ended 31 August 1996 were audited by H W Fisher & Co of 11-15 William Road, London NW1 3ER. In all years the financial statements received unqualified audit opinions.

The financial information set out in this report is based upon the audited financial statements of the Company and is after making such adjustments as we consider necessary. Our work has been carried out in accordance with the Auditing Guideline, "Prospectuses and the Reporting Accountant".

In our opinion the financial information set out below gives, for the purposes of the prospectus of the Company dated 20 January 1997, a true and fair view of the profit and cash flows of the Company for the three years ended 31 August 1996 and of the state of affairs of the Company as at 31 August 1994, 31 August 1995 and 31 August 1996.

Audited financial statements have not been prepared for the Company in respect of any period since 31 August 1996.

We hereby consent to the inclusion of this report, for which we are responsible, in the prospectus of the Company dated 20 January 1997 for the purposes of paragraph 13(1)(d) of the Public Offers of Securities Regulations 1995.

PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards which have been consistently applied throughout the period under review.

The principal accounting policies of the Company are set out below.

Turnover

Turnover represents the amount derived from the provision of goods and services during the year (including goods sold but not delivered until after the year end) after deduction of trade discounts and value added tax.

Trademarks

No amortisation is provided on trademarks. However, provision is made for any permanent diminution in value.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Motor vehicles	25% reducing balance
Plant, machinery and loose tools	15% reducing balance
Fixtures, fittings and equipment	15% reducing balance
Computers	33% reducing balance

Kitchen display units are included within tangible fixed assets as such assets are typically held for 3 to 5 years. The directors consider inclusion in fixed assets to present fairly their economic use. The cabinet and appliance elements of display units are not depreciated as the estimated residual values are expected to be greater than cost. The fixtures and fittings element are depreciated at 33% on a straight line basis.

Leasing and hire purchase commitments

Assets held under finance lease and hire purchase contracts are treated as if they had been purchased outright at the present value of the rentals payable, less finance charges, over the primary period of the agreements. The corresponding obligations under these agreements are included in creditors. The finance element of the rentals payable is charged to the profit and loss account so as to produce a constant rate of charge on the outstanding balance in each period.

Rental payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes all direct costs incurred in bringing the stocks to their present location and condition.

The purchase cost of raw materials is calculated on a first in first out basis. The cost of work in progress includes an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Pensions

The Company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

PROFIT AND LOSS ACCOUNTS

for the three years ended 31 August 1996

	Note	Year ended 31 August		
		1994 £'000	1995 £'000	1996 £'000
Turnover	1	1,057	1,318	1,657
Cost of sales		(488)	(526)	(701)
Gross profit		569	792	956
Distribution costs		(94)	(146)	(235)
Administrative expenses		(321)	(419)	(488)
Operating profit	2	154	227	233
Interest receivable and other income	4	2	9	14
Interest payable and similar charges	5	(4)	(2)	—
Profit on ordinary activities before taxation		152	234	247
Tax on profit on ordinary activities	6	(3)	(59)	(60)
Profit on ordinary activities after taxation		149	175	187
Dividends	7	—	(80)	(60)
Retained profit for the year		149	95	127
Retained (loss)/profit brought forward		(73)	76	171
Retained profit carried forward		76	171	298

The Company had no recognised gains and losses during the three years ended 31 August 1996 other than those included in the profits above.

BALANCE SHEETS

as at 31 August 1994, 1995 and 1996

	Note	As at 31 August		
		1994 £'000	1995 £'000	1996 £'000
Fixed assets				
Tangible assets	8	96	123	142
Intangible assets	9	—	1	4
		96	124	146
Current assets				
Stock and work in progress	10	25	44	55
Debtors	11	102	78	150
Cash at bank and in hand		177	230	304
		304	352	509
Creditors: amounts falling due within one year	12	(294)	(303)	(355)
Net current assets		10	49	154
Total assets less current liabilities		106	173	300
Creditors: amounts falling due after more than one year		(28)	—	—
		78	173	300
Capital and reserves				
Called up share capital	13	1	1	1
Other reserve	14	1	1	1
Profit and loss account	14	76	171	298
Shareholders' funds	15	78	173	300

CASH FLOW STATEMENTS

for the three years ended 31 August 1996

		Year ended 31 August		
	Note	1994 £'000	1995 £'000	1996 £'000
Net cash inflow from operating activities	16	129	319	212
Returns on investment and servicing of finance				
Interest received		1	9	14
Interest paid		(5)	(2)	—
Dividends paid		—	(80)	(60)
Net cash outflow from returns on investments and servicing of finance		(4)	(73)	(46)
Tax paid		—	(22)	(40)
Investing activities				
Payments to acquire tangible fixed assets		(20)	(47)	(54)
Proceeds from disposal of tangible fixed assets		14	10	7
Payments to acquire intangible fixed assets		—	(1)	(3)
Net cash outflow from investing activities		(6)	(38)	(50)
Net cash inflow before financing		119	186	76
Financing				
Repayment of director's loan		—	(100)	—
Repayment of bank loans		(16)	(34)	—
Capital element of finance leases		(4)	1	(2)
Net cash outflow from financing	19	(20)	(133)	(2)
Increase in cash and cash equivalents	17	99	53	74

NOTES TO THE FINANCIAL INFORMATION for the three years ended 31 August 1996

1. TURNOVER

Turnover is attributable to the principal activity of the Company, which is principally undertaken in the United Kingdom.

2. OPERATING PROFIT

Operating profit is stated after charging:

	Year ended 31 August		
	1994 £'000	1995 £'000	1996 £'000
Auditors' remuneration	8	6	8
Depreciation			
Owned tangible fixed assets	14	13	27
Tangible fixed assets held under finance lease	2	2	—
Rentals under operating leases			
Plant and machinery	5	16	23
Other assets	49	50	49
Hire purchase interest	1	—	—
Pension costs	9	23	36
Rents and other costs	—	—	14

Rents and other costs represent the net costs incurred in respect of a leasehold property which had been sublet by the Company since 1992. The tenant had fallen into arrears and during the year under review and the Company secured a judgement for repossession of the property which was disposed during the year. However the Company has been unable to make a full recovery of the rental arrears.

3. DIRECTORS AND EMPLOYEES

The average number of employees, including directors, during each year was as follows:

	Year ended 31 August		
	1994	1995	1996
	Number	Number	Number
Directors	3	3	3
Production	8	8	10
Sales and distribution	2	3	5
Administration	2	2	2
	<u>15</u>	<u>16</u>	<u>20</u>

Staff costs during each year were as follows:

	Year ended 31 August		
	1994	1995	1996
	£'000	£'000	£'000
Wages and salaries	217	275	323
Social security costs	19	26	30
Other pension costs	9	23	36
	<u>245</u>	<u>324</u>	<u>389</u>

	Year ended 31 August		
	1994	1995	1996
	£'000	£'000	£'000
Remuneration for management services in respect of directors (including pension contributions and benefits in kind)	<u>56</u>	<u>88</u>	<u>107</u>

The emoluments of the Chairman and highest paid director, excluding pension contributions, were as follows:

	Year ended 31 August		
	1994	1995	1996
	£'000	£'000	£'000
Chairman	<u>22</u>	<u>32</u>	<u>45</u>
Highest paid director	<u>25</u>	<u>34</u>	<u>-</u>

During the year ended 31 August 1996, the chairman was the highest paid director.

Other directors who received emoluments, excluding pension contributions, fell within the following ranges:

	Year ended 31 August		
	1994	1995	1996
	Number	Number	Number
£0 - £5,000	1	1	1
£30,001 - £35,000	<u>-</u>	<u>-</u>	<u>1</u>

In addition to the above Richard Douglas Consultants (in which Richard Worthington is a partner) received consultancy expenses as detailed in Note 24.

4. INTEREST RECEIVABLE AND OTHER INCOME

	Year ended 31 August		
	1994	1995	1996
	£'000	£'000	£'000
Interest receivable	<u>2</u>	<u>9</u>	<u>14</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 August		
	1994	1995	1996
	£'000	£'000	£'000
On bank loans and overdrafts	3	2	—
On finance lease and hire purchase contracts	1	—	—
	<u>4</u>	<u>2</u>	<u>—</u>

6. TAXATION

	Year ended 31 August		
	1994	1995	1996
	£'000	£'000	£'000
UK corporation tax @ 24.6% (1994: 25%; 1995: 25%)	3	60	60
Overprovision in prior year	—	(1)	—
	<u>3</u>	<u>59</u>	<u>60</u>

The 1994 tax charge has been reduced as a result of accumulated tax losses brought forward. As at 31 August 1996 the Company had an unprovided deferred taxation liability of £10,936 (1995: £8,680) which related to accelerated capital allowances. The amounts unprovided represent a contingent liability at the balance sheet date.

7. DIVIDENDS

	Year ended 31 August		
	1994	1995	1996
	£'000	£'000	£'000
Interim dividends paid of £300 per ordinary share (1995: £400 per ordinary share; 1994: nil)	—	80	60

8. TANGIBLE FIXED ASSETS

	Kitchen display units £'000	Motor vehicles £'000	Plant, machinery and loose tools £'000	Fixtures, fittings and office equipment £'000	Computers £'000	Total £'000
At 1 September 1994	36	47	152	70	5	310
Additions	15	12	1	3	16	47
Disposals	—	(7)	(2)	(1)	—	(10)
At 31 August 1995	51	52	151	72	21	347
Additions	16	—	9	11	18	54
Disposals	(10)	(21)	—	—	—	(31)
At 31 August 1996	57	31	160	83	39	370
Depreciation						
At 1 September 1994	15	32	112	51	4	214
Charge for the year	1	4	6	4	—	15
Disposals	—	(2)	(3)	—	—	(5)
At 31 August 1995	16	34	115	55	4	224
Charge for the year	4	3	7	3	10	27
Disposals	(5)	(18)	—	—	—	(23)
At 31 August 1996	15	19	122	58	14	228
Net book value						
At 31 August 1995	35	18	36	17	17	123
At 31 August 1996	42	12	38	25	25	142

The figures stated above include assets held under finance leases as follows:

	Year ended 31 August		
	1994	1995	1996
	£'000	£'000	£'000
Motor vehicles	5	11	—

9. INTANGIBLE FIXED ASSETS

	Trademarks £'000
Cost	
At 1 September 1994	—
Additions	1
	<u>1</u>
At 31 August 1995	1
Additions	3
	<u>4</u>
At 31 August 1996	<u>4</u>

10. STOCK AND WORK IN PROGRESS

	As at 31 August	
	1995	1996
	£'000	£'000
Raw materials and consumables	15	18
Work in progress	21	21
Finished goods and goods for resale	8	16
	<u>44</u>	<u>55</u>

11. DEBTORS

	As at 31 August	
	1995	1996
	£'000	£'000
Trade debtors	66	104
Other debtors	1	—
Prepayments and accrued income	11	31
ACT recoverable	—	15
	<u>78</u>	<u>150</u>

The majority of the trade debtor balance relates to monies due from concession owners who have collected sales receipts on behalf of the Company.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	As at 31 August	
	1995	1996
	£'000	£'000
Trade creditors	112	138
Payments received on account	45	53
Other taxes and social security	28	31
Corporation tax	40	60
Other creditors	25	15
Accruals and deferred income	50	42
Directors current account	1	1
Amounts due under finance lease and hire purchase contracts	2	—
ACT payable	—	15
	<u>303</u>	<u>355</u>

13. CALLED UP SHARE CAPITAL

	As at 31 August	
	1995	1996
	£'000	£'000
Authorised:		
20,000 ordinary shares of £1 each	20	20
	<u>20</u>	<u>20</u>
Allotted, issued and fully paid:		
200 ordinary shares of £1 each	1	1
	<u>1</u>	<u>1</u>

On 7 January 1997 the authorised share capital of the Company was increased to £50,000 divided into 5,000,000 ordinary shares of £0.01 each and 4,980,000 ordinary shares were issued to existing shareholders credited fully paid by way of capitalisation of £49,800 of the reserves of the Company.

On 17 January 1997 the authorised share capital of the Company was increased to £250,000 by the creation of 200,000,000 ordinary shares of 0.1p each, each of the existing ordinary shares of £0.01 each was subdivided into 10 ordinary shares of 0.1p each, and the sum of £50,000 was authorised to be capitalised in paying up in full a further 50,000,000 new ordinary shares of 0.1p each to be issued to the existing members of the Company, but in each case conditionally upon the issued ordinary shares in the capital of the Company being admitted to trading on the Alternative Investment Market of the London Stock Exchange not later than 7 February 1997.

14. STATEMENT OF MOVEMENT ON RESERVES

	Other reserve £'000	Profit & loss £'000	Total £'000
At 1 September 1994	1	76	77
Transfer from profit & loss account for the year	—	95	95
At 31 August 1995	1	171	172
Transfer from profit & loss account for the year	—	127	127
At 31 August 1996	1	298	299

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 August		
	1994 £'000	1995 £'000	1996 £'000
Profit for the financial year	149	175	187
Dividends	—	(80)	(60)
	149	95	127
Opening shareholders' funds	(71)	78	173
Closing shareholders' funds	78	173	300

16. NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 August		
	1994 £'000	1995 £'000	1996 £'000
Operating profit	154	227	233
Depreciation	16	15	27
Loss/(profit) on disposal of fixed assets	3	(5)	1
Decrease/(increase) in stocks	60	(19)	(11)
(Increase)/decrease in debtors	(64)	24	(57)
(Decrease)/increase in creditors	(40)	77	19
Net cash inflow from operating activities	129	319	212

17. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

	Year ended 31 August		
	1994 £'000	1995 £'000	1996 £'000
Balance at 1 September	78	177	230
Net cash inflow	99	53	74
Balance at 31 August	177	230	304

18. ANALYSIS OF CASH AND CASH EQUIVALENTS

	Year ended 31 August		
	1994 £'000	1995 £'000	1996 £'000
Cash at bank and in hand	177	230	304

19. ANALYSIS OF CHANGES IN FINANCING

	Share capital £'000	Director's loan £'000	Bank loan £'000	HP and finance lease liabilities £'000
As at 1 September 1993	1	100	50	5
Cash outflows from financing	—	—	(16)	(4)
As at 31 August 1994	1	100	34	1
Cash (outflows)/inflows from financing	—	(100)	(34)	1
As at 31 August 1995	1	—	—	2
Cash outflows from financing	—	—	—	(2)
As at 31 August 1996	1	—	—	—

20. CAPITAL COMMITMENTS

There were no capital commitments authorised or contracted for at 31 August 1996 (1995: £NIL; 1994: £NIL).

21. OPERATING LEASE COMMITMENTS

At 31 August 1995 and 31 August 1996 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	1995	1996	1995	1996
	£'000	£'000	£'000	£'000
Within one year	—	—	—	1
Between two and five years	—	—	22	19
In over five years	51	52	—	—
	<u>51</u>	<u>52</u>	<u>22</u>	<u>20</u>

Included within land and building commitments at 31 August 1996 is an amount of £22,563 relating to a lease that was sold after the year end.

22. CONTINGENT LIABILITIES

The Company has a liability in respect of unprovided deferred taxation as follows:

	Year ended 31 August	
	1995	1996
	£'000	£'000
Accelerated capital allowances (see Note 6)	9	11

Included with land and building operating lease commitments (Note 21) is £22,500 relating to the Limborough Road property. It is the Company's intention to vacate this property. In the event that a new tenant cannot be found, the Company will be liable for rent. The directors estimate that the maximum present value of the contingent liability is £172,000, which would fall to be payable over 11 years.

23. PENSION COSTS

The Company operates a defined contribution pension scheme for certain of its employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £5,194 (1995: £3,809; 1994: £3,804). The Company has also made contributions to directors' pension schemes of £31,002 (1995: £18,923; 1994: £5,297).

24. DIRECTORS' MATERIAL INTERESTS

During the year ended 31 August 1995, the Company sold one of its motor vehicles to John Lewis for £7,250. (1996: nil; 1994: nil).

During the year ended 31 August 1996, the Company incurred consultancy expenses of £26,250 plus VAT (1995: £22,670; 1994: £4,575) payable to a firm in which Richard D Worthington is a partner.

The Directors regard the above transactions as having been carried out on a normal arms length basis.

Yours faithfully

GRANT THORNTON

PART 3

ILLUSTRATIVE FINANCIAL PROJECTIONS

The Directors have carefully considered the Company's prospects and on the basis of the principal assumptions set out below have prepared the following Illustrative Financial Projections to illustrate the potential level of profitability should their assumptions prove to be correct. These Illustrative Financial Projections have been made after due and careful enquiry by the Company, are the sole responsibility of the Directors, and should be read in conjunction with the bases and principal assumptions set out below.

The Illustrative Financial Projections are not and cannot be regarded as profit forecasts or a guarantee about the Company's prospects and should not be relied upon by investors.

	<i>For the Year ending 31 August 1997 £'000's</i>
Turnover	2,149
Gross profit	1,302
Profit before taxation	400
Profit after taxation	300
Earnings per share	0.22 pence

Earnings per share for the year ending 31 August 1997 is calculated on the basis of the number of Ordinary Shares in issue immediately following Admission being 138,333,333 and after allowing for corporation tax at 25%.

The Illustrative Financial Projections have been prepared on the following bases and principal assumptions:

1. turnover is not adversely affected by economic circumstances or other circumstances beyond the control of the Directors or any material change in the nature and extent of the market;
2. no material changes occur in the competitive position of the Company or trading conditions affecting the Company;
3. the Company is able to continue to market and sell its existing range of products and to use the existing names and marks associated with its products without interruption or action which materially adversely affects turnover or its costs of sale;
4. the Company is not adversely affected by the consequences of industrial disputes, interruption of supplies, loss of key personnel or changes in legislation, regulations or government policy in any of the national markets in which the Company trades or into which its products are distributed;
5. there are no changes in the levels of corporation tax, value added tax or any other forms of taxation or duty which directly or indirectly affect either the costs of production or demand for the Company's products;
6. inflation will not significantly affect the levels of turnover or costs of production and distribution or sale of the Company's products, which costs can be maintained at similar levels to existing costs.

Grant Thornton

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and

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RH10 6AS

20 January 1997

Dear Sirs

John Lewis of Hungerford plc

We have reviewed the accounting policies, assumptions and calculations for the Illustrative Financial Projections for the year ending 31 August 1997 of John Lewis of Hungerford plc ("the Company") as set out in Part 3 of the prospectus dated 20 January 1997 ("the Prospectus").

The Illustrative Financial Projections, for which the Directors of the Company are solely responsible, are based upon assumptions made by the Directors which cannot be confirmed and verified in the same way as past results. The principal assumptions and bases are summarised in Part 3 of the Prospectus.

It should be appreciated that the Illustrative Financial Projections have been prepared for the purposes of illustration and do not constitute a forecast of the most likely outcome by the Directors. Since the projections relate to the future and may be affected by unforeseen events, we can express no opinion on how closely actual results eventually achieved will correspond to those projected, nor on the validity of the assumptions on which the projections are based.

In our opinion, the Illustrative Financial Projections have been properly compiled, so far as the accounting policies and calculations are concerned, on the basis of the assumptions referred to above made by the Directors of the Company and are presented on the basis of the accounting policies normally adopted by the Company.

Yours faithfully

GRANT THORNTON

PART 4

PRO FORMA STATEMENT OF THE NET ASSETS OF THE COMPANY

The following is an illustrative pro forma statement of the net assets of John Lewis of Hungerford plc following the Placing and is prepared on the basis set out in the notes below. It has been prepared for illustrative purposes only. Because of its nature, it cannot give a complete picture of the financial position of the Company.

	As at 31 August 1996 £'000	Net proceeds of the Placing £'000	Pro forma net assets £'000
Fixed assets			
Tangible assets	142	—	142
Intangible assets	4	—	4
	<u>146</u>	<u>—</u>	<u>146</u>
Current assets			
Stocks	55	—	55
Debtors	150	—	150
Cash at bank and in hand	304	900	1,204
	<u>509</u>	<u>900</u>	<u>1,409</u>
Current liabilities			
Creditors: amounts falling due within one year	(355)	—	(355)
Net current assets	<u>154</u>	<u>900</u>	<u>1,054</u>
Net assets	<u><u>300</u></u>	<u><u>900</u></u>	<u><u>1,200</u></u>

Notes:

1. The net assets at 31 August 1996 have been extracted from the audited financial statements of the Company for the year ended 31 August 1996.
2. The adjustment represents the net proceeds of the Placing receivable by the Company of approximately £900,000.
3. No account has been taken of trading by the Company since 31 August 1996.

PART 5

ADDITIONAL INFORMATION

1. Responsibility

To the best of the Directors' knowledge the information contained herein is in accordance with the facts and makes no omission likely to affect the import of such information. All the Directors whose names, functions and addresses are set out on page 5 of this document, accept responsibility accordingly.

2. The Company

The Company was incorporated and registered in England and Wales on 16 June 1977 with registered number 1317377 under the Companies Acts 1948 to 1976 as a private limited company. On 8 January 1997 the Company was re-registered as a public limited company under the Act, being the principal legislation under which the Company operates. The Company's registered office is at Unit 3 Limbborough Road, Wantage, Oxfordshire OX12 9AJ. The principal place of business of the Company is at Park Street, Hungerford, Berkshire RG17 0EF.

3. Share Capital

- 3.1 The current authorised share capital of the Company is £50,000 divided into 5,000,000 ordinary shares of 1p each, which ordinary shares are following the capitalisation of £49,800 in paying up in full 4,980,000 ordinary shares of 1p each, (including 4,955,100 ordinary shares of 1p each issued to John Lewis), on 7 January 1997, all in issue and fully paid up.
- 3.2 By a resolution passed in general meeting on 17 January 1997 and expressed to be conditional upon Admission on or before 7 February 1997, the authorised share capital of the Company was increased to £250,000 by the creation of 200,000,000 Ordinary Shares, each of the existing ordinary shares of 1p each was sub-divided into 10 Ordinary Shares and the Directors were granted authority to allot relevant securities (as defined in section 80 of the Act) for a period ending on whichever is the earlier of 15 months after the date of passing the resolution or the conclusion of the Company's Annual General Meeting to be held in 1998 up to an aggregate nominal amount of £144,129. The Directors were also empowered to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the foregoing authority as if section 89 of the Act did not apply to such allotment, such power to expire on whichever is the earlier of 15 months after the date of passing the resolution or the conclusion of the Company's Annual General Meeting to be held in 1998.
- 3.3 By a resolution passed in general meeting on 17 January 1997 expressed to be conditional upon Admission on or before 7 February 1997, the Directors were authorised to capitalise the sum of £50,000 in paying up in full 50,000,000 Ordinary Shares to be issued to the members of the Company at the date of passing the resolution, *pro rata* to their existing holdings (including 49,750,000 Ordinary Shares to be issued to John Lewis).
- 3.4 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, except to the extent disapplied by the power referred to in paragraph 3.2 above.
- 3.5 By an agreement dated 29 June 1994 (as amended by a supplemental agreement dated 17 January 1997), the Company granted to Richard Worthington an option exercisable in whole or in part to subscribe for such number of Ordinary Shares as at the date of exercise shall represent 7% of the enlarged share capital of the Company following the exercise of the option for an aggregate subscription price not less than the aggregate nominal value of the Ordinary Shares in respect of which the option is exercised, but subject thereto, at a price of £17,000 or a proportionate part of such price in the event that the option is exercised in part only. The option is exercisable during the period of six years from the date of the agreement and where exercised in part only, each successive exercise shall be in respect of a number of Ordinary Shares calculated by reference to the issued share capital of the Company at the date of such later exercise. The Company has the right, if it so wishes, to make a payment for the cancellation of the option, based on the market value of those shares in respect of which the option is exercised and any shares representing the unexercised portion of the option at that date, less the subscription price otherwise payable by Richard Worthington for such shares.
- 3.6 Save as set out in paragraph 3.5 above, no share or loan capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option.
- 3.7 Save in respect of the capitalisation issue referred to in paragraph 3.3 above, the Placing, and pursuant to the exercise of the option referred to at paragraph 3.5 above, the Company has no present intention to issue any of the authorised but unissued share capital of the Company.

4. Memorandum and Articles of Association

- 4.1 The Memorandum of Association of the Company provides that the Company's principal object is to act as and carry on the business, *inter alia*, of retail and general dealers in furniture and to enter into any incidental transaction. The objects of the Company are set out in full in clause 4 of the Memorandum of Association. The liability of the members of the Company is limited.

- 4.2 The Articles of Association of the Company adopted on 8 January 1997 (the "Articles") contain provisions, *inter alia*, to the following effect:

4.2.1 *Voting Rights*

- 4.2.1.1 Subject to any special terms as to voting upon which any shares may have been issued, or may for the time being be held, every member present in person shall upon a show of hands have one vote and every member present in person or by proxy shall upon a poll have one vote for every share of which he is the holder.
- 4.2.1.2 If two or more persons are jointly entitled to shares for the time being conferring a right to vote, any one of such persons may vote at any meeting, either personally or by proxy, in respect thereof as if he were solely entitled thereto, and if more than one of such joint holders be present at any meeting, either personally or by proxy, the member whose name stands first on the Register of members as one of the holders of such shares, and no other, shall be entitled to vote in respect of the same.

4.2.2 *Restrictions on Share Rights*

- 4.2.2.1 No member shall, unless the Directors otherwise determine, be entitled to be present or to vote, either in person or by proxy, at any general meeting or upon any poll or to exercise any privilege as a member in relation to meetings of the Company in respect of any shares held by him unless all calls or other sums presently payable by him in respect of those shares in the Company have been paid.
- 4.2.2.2 If any member holding shares comprised in the relevant share capital of the Company, or any other person appearing to be interested in shares held by such member, has been duly served with a notice under Section 212 of the Act and is, in the opinion of the Board, in default in supplying to the Company the information required by the notice, then the Board may in its absolute discretion at any time thereafter direct that:
- (i) in respect of shares in relation to which the default occurred ("the Default Shares"), the member shall not be entitled to be present or to vote at a general meeting or separate general meeting of any class of shares either personally or by representative or by proxy or to exercise any other right conferred by membership in relation to any such meetings; and
 - (ii) where the Default Shares represent one quarter of one per cent. or more of the issued amount of the class of shares concerned any dividend or other money which would otherwise be payable on the Default Shares shall be retained by the Company without any liability to pay interest thereon when such money is finally paid to the member and that where an offer of the right to elect to receive Ordinary Shares instead of cash in respect of any dividend is or has been made, any election made thereunder by such member in respect of the Default Shares shall not be effective; and/or
 - (iii) no transfer of any of the Default Shares shall be registered unless the member is not himself in default as regards supplying the information requested and the transfer is of part only of the member's holding and when presented for registration is accompanied by a certificate by the member in a form satisfactory to the Board to the effect that, after due and careful enquiry the member is satisfied that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

4.2.3 *Return of Capital on Winding-Up*

The liquidator on any winding-up of the Company (whether voluntary or under supervision or compulsory) may with the authority of an extraordinary resolution, divide among the members in kind the whole or any part of the assets of the Company and whether or not the assets shall consist of property of one kind, or shall consist of properties of different kinds, and for such purpose may set such value as he deems fair upon any one or more class or classes of property, and may determine how such division shall be carried out as between members or classes of members but so that if any such division shall be otherwise than in accordance with the existing rights of the members, every member shall have the same right of dissent and other ancillary rights as if such resolution were a special resolution passed in accordance with Section 110, Insolvency Act 1986.

4.2.4 *Variation of Class Rights and Alteration of Capital*

- 4.2.4.1 Subject to the provisions of the Act, if at any time the capital of the Company is divided into different classes of shares all or any of the rights or privileges attached to any class may be varied either in such manner (if any) as may be provided by such rights or in the absence of any such provision either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting (convened and conducted pursuant to the provisions of the Articles) of the holders of the issued shares of that class, but not otherwise. The creation or issue of shares ranking

pari passu with or subsequent to the shares of any class shall not (unless otherwise expressly provided by the Articles or the rights attached to such last mentioned shares as a class) be deemed to be a variation of the rights of such shares.

- 4.2.4.2 The Company may by special resolution create and sanction the issue of shares which are, or at the option of the Company are to be liable, to be redeemed, subject to and in accordance with the provisions of any relevant legislation. The special resolution sanctioning any such issue shall also make such alterations to the Articles as may be necessary to specify the terms on which and the manner in which any such shares shall be redeemed.
 - 4.2.4.3 The Company may by ordinary resolution consolidate and divide its shares, or any of them, into shares of a larger amount or smaller amount.
 - 4.2.4.4 The Company may by ordinary resolution sub-divide its shares, or any of them, into shares of a smaller amount, and may by such resolution determine that, as between the holders of the shares resulting from such sub-division, one or more of such shares shall have some preferred or other advantage as regards dividend, capital, voting or otherwise over or shall have deferred rights or be subject to such restrictions as compared with the other or others as the Company has power to attach to shares upon the allotment thereof.
 - 4.2.4.5 The Company may from time to time by ordinary resolution convert all or any fully paid-up shares into stock of the same class as shares which shall be so converted, and may from time to time, in like manner, reconvert such stock into fully paid-up shares of the same class and of any denomination.
 - 4.2.4.6 Subject to the provisions of any relevant legislation, any new shares in the capital of the Company may be allotted with such a preferential right to dividend and such priority in the distribution of assets, or subject to such postponement of dividends or in the distribution of assets, and with or subject to such preferential or limited or qualified right of voting at general meetings as the Company may from time to time by ordinary resolution determine, or, if no such determination be made, as the Directors shall determine, but so that the rights attached to any issued shares as a class shall not be varied except with the consent of the holders thereof duly given under the provisions of the Articles. Subject as aforesaid, any preference shares may be issued on terms that they are, or, at the option of the Company, are to be liable to be redeemed.
 - 4.2.4.7 The Company may from time to time by special resolution reduce its share capital and any capital redemption reserve and any share premium account in any manner authorised, and with and subject to any incident prescribed or allowed, by the relevant legislation. The Company may also by ordinary resolution 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.
 - 4.2.4.8 The Company may purchase its own shares (including any redeemable shares) but so that no such purchase shall take place save in accordance with the Act and on the basis that such purchase is sanctioned by an extraordinary resolution passed at a separate class meeting of the holders (if any) of any class of shares which are convertible into shares of another class where such shares would, if so converted, entitle the holders thereof to attend and vote at general meetings of the Company.
- 4.2.5 *Transfer of Shares*
- 4.2.5.1 The Directors may, in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of shares unless all of the following conditions are satisfied:
 - 4.2.5.1.1 it is in respect of a share which is not subject to transfer restrictions as a result of a failure to comply with a notice served under Section 212 of the Act;
 - 4.2.5.1.2 it is in respect of a fully paid share;
 - 4.2.5.1.3 it is in respect of a share on which the Company does not have a lien;
 - 4.2.5.1.4 it is in respect of only one class of shares;
 - 4.2.5.1.5 it is in favour of not more than four joint holders as transferees;
 - 4.2.5.1.6 it is duly stamped; and
 - 4.2.5.1.7 the conditions referred to in paragraph 4.2.5.2 have been satisfied in respect thereof
 - and if the Directors refuse to register a transfer they shall within two months after the date on which the transfer was lodged with the Company, send to the transferee notice of the refusal. Provided that in the case of any partly-paid shares which are for the time being admitted to the Official List of the London Stock Exchange or to trading on AIM, no restrictions shall operate on transfer such as would prevent dealings in such shares on an open and proper basis.
 - 4.2.5.2 In the case of shares in certificated form, every instrument of transfer must be left at the place the register of members is situated (or at such other place as the Directors may from time to time determine) to be registered, accompanied by the relevant share certificate(s) (save in the case of a Recognised Clearing House where a share certificate or certificates have not been issued in respect of the shares in question), and such other evidence as the Directors may reasonably require to prove the

right of the transferor to make such a transfer, and the due execution by him or his duly authorised agent of the transfer and thereupon the Directors, subject to the power vested in them referred to in paragraph 4.2.5.1, shall register the transferee as the holder within fourteen days.

- 4.2.5.3 No fee shall be chargeable by the Company for registering any transfer, probate, letters of administration, certificate of marriage or death, power of attorney, or other document relating to or affecting the title to any shares or the right to transfer the same or otherwise for making any entry in the Register relating to or affecting the title to any shares.

4.2.6 Dividends

- 4.2.6.1 The Company by ordinary resolution in general meeting may declare a dividend to be paid to the members according to their respective rights and interests in the profits, but no larger dividend shall be declared than is recommended by the Directors.
- 4.2.6.2 No dividend or other moneys payable by the Company shall bear interest as against the Company.
- 4.2.6.3 Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid-up on the shares in respect whereof the dividend is paid, but no amount paid-up on a share in advance of calls shall be treated for the purpose of this paragraph as paid-up on the share. Subject as aforesaid all dividends shall be apportioned and paid proportionately to the amounts paid-up on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share carries any particular rights as to dividends such share shall rank for dividend accordingly.
- 4.2.6.4 In case several persons are registered as joint holders of any share any one of such persons may give effectual receipts for all dividends and payments on account of dividends in respect of such share.
- 4.2.6.5 The Directors may from time to time declare and pay an interim dividend to the members.
- 4.2.6.6 No dividend or interim dividend shall be payable except in accordance with the provisions of any relevant legislation.
- 4.2.6.7 All dividends, or other sums payable on or in respect of a share unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. Any dividend unclaimed after a period of twelve years from the due date for payment shall be forfeited and shall revert to the Company. The payment of any unclaimed dividend or other sum payable by the Company on or in respect of any share into a separate account shall not constitute the Company a trustee thereof.
- 4.2.6.8 Every dividend shall belong and be paid (subject to the Company's lien) to those members who shall be on the register of members at the close of business (or such other time as the Directors may decide) on the date fixed by the Directors for the purpose of determining the persons entitled to such dividend (whether the date of payment or some other date) notwithstanding any subsequent transfer or transmission of shares.
- 4.2.6.9 The Directors may deduct from any dividend or other monies payable to any member on or in respect of a share all such sums as may be due from him to the Company on account of calls or otherwise in relation to shares of the Company.
- 4.2.6.10 The Company may pay any dividend interest or other sum payable in cash or by direct debit, bank transfer, cheque, dividend warrant, or money order and may render the same by post to the members or persons entitled thereto, and in case of joint holders to the member whose name stands first in the register of members, or to such person and address as the holder or joint holders may direct, and the Company shall not be responsible for any loss of any such cheque, warrant, or order. As the Board may determine, every such cheque, warrant or order shall be made payable either to or to the order of the person or persons entitled or to such other person as the person or persons entitled may in writing direct and may be crossed "A/c Payee" or otherwise and payment of the cheque, warrant or order shall be a good discharge to the Company.
- 4.2.6.11 With the sanction of an ordinary resolution in general meeting any dividend may be paid and satisfied either wholly or in part by the distribution of specific assets and in particular of paid-up shares or debentures of any other company, and the Directors shall give effect to any such direction provided that no such distribution shall be made unless recommended by the Directors. Where any difficulty arises in regard to the distribution, the Directors may settle the same as they think expedient, and in particular may issue fractional entitlements, and may fix the value for distribution of such specific assets or any part thereof, and may determine that cash payments may be made to any members upon the footing of the value so fixed, in order to adjust the rights of all parties, and may vest any such assets in trustees upon trust for the persons entitled to the dividend as may seem expedient to the Directors.
- 4.2.6.12 Subject to the provisions of any relevant legislation, the Directors may, if authorised by an ordinary resolution of the Company, offer the holders of Ordinary Shares (subject to such exclusions or other arrangements as the Directors may consider necessary or expedient in relation to any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or stock exchange) the right to elect to receive new Ordinary Shares credited as fully paid instead of cash, in respect of all or part of any dividend subject to provisions contained in the Articles.

5. Directors' and Other Interests

- 5.1 The interests of the Directors, their immediate families and persons connected with them within the meaning of section 346 of the Act in the issued share capital of the Company (which have been notified to the Company pursuant to sections 324 and 328 of the Act) or as they appear in the Register of Directors' Interests maintained under section 325 of the Act and as they are expected to be immediately following Admission are as follows:

	Number of ordinary shares of 1p each	Percentage of existing share capital	Number of Ordinary Shares of 0.1p each following the Placing	Percentage of enlarged issued share capital
John Lewis	4,975,000	99.5	95,816,678	69.3
Linda Lewis	—	—	—	—
Richard Worthington*	—	—	—	—
Keith Bentley	—	—	66,666	0.05

Note:

*Richard Worthington has an option to acquire up to 7% of the issued share capital of the Company, details of which are set out in paragraph 3.5 above.

- 5.2 Save as set out in paragraphs 3.5 and 5.1 above, following Admission no Director or persons connected with such a Director (within the meaning of Section 346 of the Act) will have any interest in the share capital of the Company.
- 5.3 The interest of John Lewis in the issued share capital of the Company following the Placing set out under paragraph 5.1 above, is his entire beneficial interest after the sale by him of 3,333,333 Ordinary Shares pursuant to the Placing and the transfer by him of a total of 349,989 Ordinary Shares to employees of the Company by way of gift on Admission. The interest of Keith Bentley in the issued share capital following the Placing represents the 66,666 Ordinary Shares he will acquire at the Placing Price pursuant to the Placing and will be his own beneficial interest.
- 5.4 The Directors expect that immediately following Admission no persons (other than John Lewis) will be interested directly or indirectly in 3% or more of the Enlarged Share Capital.
- 5.5 So far as the Directors are aware and save as set out in this paragraph 5, no persons (directly or indirectly) exercise or could exercise control over the Company immediately following completion of the Placing.
- 5.6 The Directors have given certain undertakings to Ellis & Partners regarding the sale or disposal of any shares in the Company owned by them, as set out in paragraph 10.4 below.
- 5.7 As well as being Directors, both John Lewis and Richard Worthington are or may be deemed to be promoters of the Company. Save for normal emoluments paid and agreed to be paid to John Lewis, the allotments of shares to John Lewis referred to in paragraph 3, the payment to John Lewis of dividends on his shares in the Company as disclosed in Part 2 of this document and the fees paid and agreed to be paid to Richard Douglas Consultants, in which Richard Worthington is interested as noted below, no payment or benefit has during the two years preceding the publication of this document been paid or is agreed or proposed to be paid or given by the Company to any promoter.

6. Arrangements with Directors

- 6.1.1 John Lewis has a service agreement with the Company dated 17 January 1997. The agreement shall continue unless and until it is terminated by either party giving to the other not less than one year's written notice. His employment may, however, be terminated by three months' notice if he is prevented from working by illness, accident or other incapacity for an aggregate period in excess of 180 days in any period of 12 months. He is entitled to receive a salary of £50,000 per annum or such other amount as may from time to time be agreed by the Board or any committee of the Board. In addition, the Company may pay him a bonus of such amount as shall be determined by the Board at its discretion, which shall be paid within four months of the end of the Company's financial year. The Company will also provide him with a company car and the Company shall bear all expenses relating to this company car except for fuel consumed during the private use of the car. The Company will provide medical expenses insurance for the benefit of John Lewis, his spouse and dependent children and he will be entitled to a death in service benefit, currently to the value of £148,000.
- 6.1.2 Linda Lewis has a service agreement with the Company dated 17 January 1997. The agreement shall continue unless and until it is terminated by either party giving to the other not less than one year's written notice. Her employment may, however, be terminated on three months' notice if she is prevented from working by illness, accident or other incapacity for an aggregate period in excess of 180 days in any 12 month period. She is entitled to receive a salary of £17,000 per annum or such other amount as may from time to time be agreed by the Board or by any committee of the Board and she is required to work an average of 20 hours per week. In addition, the Company may pay her a bonus of such an amount as shall be determined by the Board at its discretion, and which will be paid within four months of the end of the Company's financial year. The Company will provide Linda Lewis with a company car and the Company shall bear all expenses relating to the company car except for fuel consumed during the private use of the car. The Company will continue to provide medical expenses insurance for the benefit of Linda Lewis, her spouse and dependent children and she is entitled to death in service benefit, currently to the value of twice salary.

- 6.1.3 A letter of agreement dated 17 January 1997 has been entered into between the Company and Keith Bentley relating to his appointment as a non-executive Director of the Company. He will be entitled to an annual director's fee of £7,500 and the appointment will take effect from 17 January 1997 and will continue for a fixed term of one year. The appointment will be terminable by Keith Bentley's resignation or removal from office and will terminate automatically upon his vacation of office under the articles of association of the Company, removal as a Director by any resolution of the members of the Company or failure to be re-elected when submitted for re-election.
- 6.1.4 The Company entered into a consultancy agreement with Richard Douglas Consultants on 17 January 1997. The Company appointed Richard Douglas Consultants as a consultant to the Company with effect from 17 January 1997 until the agreement is determined by either party giving to the other not less than 12 months' notice. Richard Douglas Consultants will provide the services of Mr Richard Worthington to act as Finance Director for such hours as are necessary but in any event not less than an average of 20 hours during each week, and Richard Douglas Consultants shall receive a consultancy fee of £2,085 per month together with such additional sums (if any) as shall from time to time be determined by the Board having regard to the services rendered pursuant to the consultancy agreement. The Company shall be entitled to terminate the consultancy agreement if the personnel provided pursuant to the agreement are prevented by illness, injury or otherwise from providing services for more than any period of 3 months in aggregate in any period of 12 months or, without reasonable cause, neglect, refuse or fail to perform the minimum service (as defined in the consultancy agreement).
- 6.2 Save as set out in paragraph 6.1 above, there are no existing or proposed service contracts between any of the Directors and the Company or any existing or proposed consultancy agreement pursuant to which the services of any Directors are to be provided and which are not determinable by the Company without the payment of compensation (other than any statutory compensation) within one year.
- 6.3 In the financial year ended 31 August 1996, the aggregate of the remuneration paid and benefits in kind granted to the Directors by the Company was £107,000 and the consultancy fees paid to Richard Douglas Consultants, a firm in which Richard Worthington is a partner, in respect of the provision of his services as a Director amounted to £26,500 plus VAT. The aggregate of the remuneration payable (including benefits in kind) to the Directors in respect of the year ending 31 August 1997 under the arrangements in force at the date of this document, is expected to amount to approximately £112,000. In addition, the aggregate amount which is expected to be paid to Richard Douglas Consultants in respect of the services of Richard Worthington as a Director during that period is £25,000 plus VAT. In addition, Keith Bentley, the non-executive director is expected to receive £4,664 during that period.
- 6.4 The Company has also agreed to pay Richard Douglas Consultants a fee of £25,000, plus VAT (if applicable) for advice and services provided through Richard Worthington in connection with the Placing and Admission.
- 6.5 Set out below are the details of the directorships held over the previous five years by each of the Directors other than in relation to the Company:

Director/Company

Richard Worthington

Aspects Beauty Company Limited
Diggle Investments Limited¹
Estee Lauder Cosmetics Limited
Estee Lauder Enhanced Trustee Company Limited
Estee Lauder Trust Company Limited
Neotronics Technology plc
Nurture Inc
Swinden Patents Limited¹
Transaction Billing Resources Inc¹
Tristar Environmental Inc²

Keith Bentley

Aspects Beauty Company Limited
Balneath Manor Selling Limited
Bentley's Cafe Limited
Bonjour Bakery & Cafe Limited
Inbake Limited¹
Oakwood Enterprises Limited
Palmana Limited
Placeweight Enterprises Limited¹
Porticus Limited
Rocaille Limited
Southbake Limited¹
Tildarg Limited¹
Valubake Limited¹

¹ current directorship

² Richard Worthington was appointed to the board of TriStar Environmental Inc ("TriStar"), a company incorporated in the U.S.A., following the provision of venture capital funding by a company of which Mr. Worthington is a director. He resigned as a director of TriStar on 27 October 1995. Mr Worthington believes that TriStar ceased trading at that date with outstanding debts and liabilities not exceeding US\$1 million. So far as Mr Worthington is aware, no formal steps have been taken by secured creditors to liquidate TriStar, although he believes that the assets of TriStar are in the course of being realised in order to settle outstanding liabilities in whole or in part.

- 6.6 Save as disclosed in this paragraph 6, no Director has any unspent convictions for indictable offences or has been declared bankrupt or was a director of any company at the time of or within the twelve months preceding its receivership or liquidation and none of the Directors has been the subject of any public criticism by any statutory or regulatory authority.
- 6.7 Linda Estelle Lewis was formerly known as Linda Estelle Ososki (during a previous marriage) and Linda Estelle Hopkins, and her maiden name was Gold.

7. Taxation

7.1 Taxation of Dividends

The following summary assumes that the Company will not elect for any of its dividends to be treated as foreign income dividends (in accordance with the provisions of the Finance Act 1994). The Board has no present intention of electing that the dividends be treated as foreign income dividends. Dividends which are treated as foreign income dividends will entitle the recipient to a tax credit, but it is not repayable.

Under current United Kingdom taxation legislation there is no United Kingdom withholding tax on dividends, but whenever the Company pays a dividend it will be liable to account to the Inland Revenue for advance corporation tax ("ACT") in respect of the dividend. The rate of ACT is currently equal to one-quarter of the dividend. Subject to certain limits and restrictions, ACT paid by the Company can be set off against its liability to corporation tax for the year of payment of the dividend and future years, or, up to a maximum of six years, for past years.

A holder of an Ordinary Share who is an individual resident (for tax purposes) in the United Kingdom and who receives a dividend paid by the Company will generally be entitled to a tax credit of an amount equal, currently, to one-quarter of the dividend. The individual will be taxable on the total of the dividend and the related tax credit, which will be regarded as the top slice of the individual's income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the dividend, unless, and except to the extent that, the dividend and related tax credit fall above the threshold for the higher rate of income tax, in which case the individual will, to that extent, pay tax on the dividend and related tax credit at a rate equal to the excess of the higher rate (currently 40%) over the lower rate (currently 20%). If the tax credit exceeds the individual's liability to income tax on the total of the dividend and the tax credit, he will be able to claim payment of the excess.

Trustees of discretionary trusts are liable to account for income tax at "the rate applicable to trusts" of 34% on the trust's income.

Subject to special rules applying to some insurance companies with overseas business, a holder of an Ordinary Share that is a company resident (for tax purposes) in the United Kingdom and that receives a dividend paid by the Company will be entitled to a tax credit (currently equal to one-quarter of the dividend) in respect of the dividend and will not be taxable on it. The dividend and related tax credit will be treated as franked investment income, and can be offset against payments made by that company.

Subject to certain exceptions for Commonwealth citizens, nationals of the European Economic Area, residents of the Isle of Man or the Channel Islands and certain others, the right of a holder of an Ordinary Share who is not resident (for tax purposes) in the United Kingdom to a tax credit in respect of a dividend received from the Company and to claim payment of any part of that tax credit will depend on the existence and terms of any double tax convention between the United Kingdom and the country in which the holder is resident. A non-UK resident holder of an Ordinary Share may be subject to foreign taxation on dividend income in his country of residence. Holders who are not resident in the United Kingdom should consult their own tax advisers concerning their tax liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so.

7.2 Stamp Duty and Stamp Duty Reserve Tax

John Lewis will be responsible for any stamp duty/stamp duty reserve tax which may be payable on the acquisition by the placees of the Ordinary Shares being sold by him pursuant to the Placing to the extent that the applicable rate does not exceed 50p per £100 or part thereof, or 0.5% (in the case of stamp duty reserve tax), of the Placing Price. Generally, the allotment or issue of new Ordinary Shares pursuant to the Placing will not give rise to a charge to stamp duty or stamp duty reserve tax, but if such a charge does arise, (which will generally be the case only in relation to depositary receipt arrangements or clearance services), the Company will not be responsible for its payment.

The above is intended only as a guide to the general United Kingdom tax position as at the date of this document. Any person who is in any doubt as to his taxation position, requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United Kingdom should consult his professional advisers.

8. Employee Share Option Scheme

The following is a summary of the Rules of the John Lewis of Hungerford plc Employee Share Option Scheme ("the Employee Scheme").

(i) Eligibility

Any director of the Company who is required to devote to his duties not less than 25 hours per week (excluding meal breaks) or any employee (other than one who is a director).

(ii) Grant of options

Invitations to apply for the grant of options can be made at any time or times within a period of four weeks after an announcement date or the approval date and in any case not earlier than the approval date nor later than the tenth anniversary thereof.

Not later than the twenty first day following the issue of invitations, the Directors may grant to each applicant an option over the number of shares specified in his application.

(iii) Exercise price

The price at which participants in the Employee Scheme may acquire Ordinary Shares shall not be less than the greater of the nominal value of any Ordinary Share and its market value on the date of grant. The market value is set at the value agreed with the Inland Revenue Shares Valuation Division.

(iv) Individual limits

No option may be granted to a participant which would result in the aggregate exercise price of Ordinary Shares comprised in options granted to him under the Employee Scheme and any other equivalent approved share option scheme exceeding £30,000.

(v) Exercise, lapse and exchange of options

Options may normally be exercised in whole or in part during the period between the third and tenth anniversaries of their grant.

Options normally lapse 6 months following cessation of employment, other than by reason of death, in which case they will lapse on the first anniversary of death.

If any person obtains control of the Company, or in the event of a reconstruction of the Company, then any subsisting option may be exercised within six months of the time that person obtains control.

If another company obtains control of the Company, the option holder may, by agreement with the other company, release each subsisting option (the "old option") in return for an option (the "new option") over shares in the acquiring company. The new option must be equivalent to the old option, in accordance with the rules of the scheme.

If the Company passes a resolution for voluntary winding up, any subsisting option may be exercised within six months of the passing of the resolution.

(vi) Limits on share capital

No option to subscribe for Ordinary Shares may be granted on any date if the number of Ordinary Shares comprised therein, when aggregated with the number of Ordinary Shares issued or remaining issuable under the Employee Scheme or any other employee share scheme in the period of 10 years ending on that date, would exceed 12 per cent. of the issued share capital of the Company.

(vii) Adjustments

With the prior approval of the Inland Revenue, the number and/or class of shares comprised in an option and/or the exercise price may be adjusted if any capitalisation issue, offer by way of rights or any sub-division, reduction or consolidation of the Company's share capital occurs, subject to the confirmation of the Company's auditors that such adjustment is fair and reasonable.

(viii) Rights attaching to shares

All Ordinary Shares allotted under the Employee Scheme will rank *pari passu* with all other Ordinary Shares of the Company in the same class in issue at the date of allotment.

(ix) Amendments

The Directors may at any time amend the Employee Scheme, provided that the prior approval of the Company in general meeting is obtained for amendments which would make the terms of options more generous to option holders or affect certain key definitions and limits. No amendments shall have effect without the prior approval of the Inland Revenue.

9. Placing Agreement

- 9.1 Pursuant to an agreement (the "Placing Agreement") dated 20 January 1997 and made between Ellis & Partners (1), the Company (2) and the Directors (3) Ellis & Partners has agreed (conditionally, *inter alia*, upon Admission taking place not later than 3 February 1997, or such later date as the Company and Ellis & Partners may agree) as agent for the Company, to procure placees to subscribe for the 38,333,333 New Ordinary Shares to be issued by the Company and to purchase the balance of the Placing Shares to be sold by John Lewis pursuant to the Placing at the Placing Price or, failing that, itself to subscribe or purchase (as the case may be) the Placing Shares at the Placing Price.

- 9.2 Under the Placing Agreement the Company has agreed to pay Ellis & Partners a fee of £15,000 and a commission of 3% of the value of the New Ordinary Shares at the Placing Price and John Lewis has agreed to pay Ellis and Partners a commission of 3% of the value of the 3,333,333 Ordinary Shares being sold by him in the Placing, together in each case with any applicable value added tax.
- 9.3 The Placing Agreement contains warranties by the Company and the executive Directors as to the accuracy of the information contained in this document and other matters relating to the Company and its business and an indemnity from the Company. Ellis & Partners is entitled to terminate the Placing Agreement prior to Admission in certain circumstances including in the event of a material breach of any of the warranties given by the Company and the executive Directors.
- 9.4 The Placing Agreement provides for the Company to pay the costs, charges and expenses of and incidental to the Placing, Admission and the issue of the New Ordinary Shares including the legal expenses of Ellis & Partners, printing and distribution costs, fees payable in connection with the registration of any documents, fees and expenses of the Registrars and the fees payable to the London Stock Exchange.
- 9.5 The arrangements for payment of the Placing Price for the Placing Shares are set out in the placing letters to be sent to placees of the Placing Shares. Acceptance of placing participations of Placing Shares must be confirmed not later than 3.00 pm on 21 January 1997 (which time and date shall be the opening of the subscription lists for the purposes of section 82 of the Act) and payment in full for the Placing Shares comprised in individual participations must be received by no later than 3.00 pm on 23 January 1997 (at any time following which, the subscription lists may close). All monies received from placees will be held by or on behalf of Ellis & Partners prior to Admission. Any monies returned to placees where applications are not accepted in whole or in part will be sent by cheque crossed "A/c Payee" in favour of the first named placee. Any monies returned will be sent by first class mail at the risk of the addressee. It is expected that definitive share certificates will be issued to placees not later than 3 February 1997.

10. Material Contracts

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

- 10.1 The Placing Agreement, the terms of which are summarised in paragraph 9 above.
- 10.2 A nominated adviser agreement dated 31 October 1996 between Smith & Williamson (1) and the Company (2) which provides for Smith & Williamson to act as the Company's nominated adviser for the purposes of Admission and in relation to the Company's continuing obligations for an initial period of 12 months and thereafter for an annual fee of £15,000 (plus value added tax and out of pocket disbursements). The Company has also given an indemnity to Smith & Williamson and certain related persons in respect of liabilities arising from its appointment as nominated adviser of the Company and agreed to be responsible for certain professional fees and other costs arising in relation to Admission.
- 10.3 A supplemental agreement dated 17 January 1997 between the Company (1) and Richard Worthington (2) amending the option agreement between the parties dated 29 June 1994 to the effect set out in paragraph 3.6 above.
- 10.4 A nominated broker agreement dated 20 January 1997 between the Company (1), Ellis & Partners (2) and the Directors (3) which provides for Ellis & Partners to act as the Company's nominated broker for the purposes of Admission and in relation to the Company's continuing obligations for an initial period of twelve months and thereafter for an annual fee of £7,500 (plus any applicable Value Added Tax). Save in certain limited circumstances each Director has given an undertaking that during the period of 12 months following Admission, he/she will not without the prior consent of Ellis & Partners sell, transfer, charge or otherwise dispose of any shares in the Company held by him/her. The Company has also given an indemnity to Ellis & Partners in respect of liabilities arising out of its appointment as nominated broker of the Company.

11. Property

- 11.1 The Company occupies a leasehold factory and offices at Unit 3, Limbrough Road, Wantage, Oxfordshire. These premises are held under a lease dated 7 January 1983 made between Hand Made Carpets Limited (1) and the Company (2) for a term of 25 years commencing 26 November 1982. The rent currently payable under the lease is £22,800 per annum and is subject to upwards only rent review every fifth anniversary of the commencement of the term of the lease.
- 11.2 The Company has occupied premises at Park Street, Hungerford since 1981, initially pursuant to terms of a lease dated 25 September 1981, which expired on 30 August 1987. Since then the Company has remained in occupation and has been holding over pursuant to the terms of the Landlord and Tenant Act 1954, as a protected tenant. The Company currently pays rent at the rate of £7,000 per annum.
- 11.3 The Company leases land and buildings on the north side of Limbrough Road, Wantage at a peppercorn rent pursuant to a tenancy agreement dated 21 October 1996 between Master Property Trading Limited (1) and the Company (2). The Company uses the site for temporary storage and warehousing. The term is 6 months from and including the date of the agreement or until determined by not less than 1 month's written notice given by

Master Property Trading Limited to the Company whichever shall be the earlier. The lease is excluded from the provisions of the Landlord and Tenant Act 1954 pursuant to an Order of the Oxford County Court made on 14 October 1996.

- 11.4 The Company has agreed, subject to contract, to take a 1¼ acre site at Grove Technology Park at Wantage, Oxfordshire where the Company intends to build its new factory and the Company is currently negotiating the commercial terms.

12. Trade Marks

- 12.1 The Company has applied for registrations of the name "John Lewis of Hungerford" as a trade mark in the United Kingdom and also made an application in July 1996 for registration of the name at the Community Trade Mark Office. Objections to the United Kingdom application have been made by John Lewis Plc. The Company has now entered into an agreement with John Lewis Plc dated 17 January 1997 on the basis of which John Lewis Plc will now withdraw its oppositions and gives its consent to the registrations. This agreement requires the Company to use the name "John Lewis" only with the accompanying words "of Hungerford" which must be given equal prominence. The agreement also requires the Company to seek the approval of John Lewis Plc (such approval not to be unreasonably withheld) before the Company opens any new concession or outlet in excess of 300 square feet within 5 miles of any John Lewis Plc department store currently existing or under construction in the UK.

- 12.2 The Company filed an application at the Community Trade Mark Office in July 1996 for registration of the name "Artisan" in respect of its products. The Company is aware of an existing third party registration of the "Artisan" name in the United Kingdom in respect of furniture generally.

The Company has approached the third party who has, following discussions with the Company, consulted its trade mark agents and has consented to the part-surrender of its registered trade mark so as to exclude kitchen furniture, so that the Company's application may proceed in respect of kitchen furniture. It has also consented to the Company's use and registration in respect of these goods.

- 12.3 The Company has also made an application on 11 December 1996 to register the name "Drunmore Castle" at the Community Trade Mark Office.

13. Miscellaneous

- 13.1 There has been no significant change in the financial or trading position of the Company since 31 August 1996, the date to which the last audited accounts of the Company were made up.
- 13.2 In the opinion of the Directors, having made due and careful enquiry, the working capital available to the Company will, from the date of Admission be sufficient for its present requirements.
- 13.3 There are no legal or arbitration proceedings active, pending or threatened against, or being brought by, the Company which are having or may have a significant effect on the Company's financial position.
- 13.4 The total costs and expenses relating to Admission and the Placing (including placing commissions but excluding the commission payable by John Lewis) are payable by the Company and are estimated to amount to £268,000 (excluding Value Added Tax).
- 13.5 Grant Thornton of Grant Thornton House, Melton Street, Euston Square, London NW1 2EP have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their report and letter and the references to such report and letter and to their name in the form and context in which they are respectively included and accept responsibility for such report and letter.
- 13.6 The financial information set out in this document relating to the Company does not constitute statutory accounts of the Company within the meaning of section 240 of the Act. The audited financial statements of the Company for each of the two financial years ended 31 August 1995 were audited by Hacker Young of St. Alphage House, 2 Fore Street, London EC2Y 5DH and the audited financial statements of the Company for the financial year ended 31 August 1996 were audited by H.W. Fisher & Co of 11-15 William Road, London NW1 3ER. In each case the financial statements contained an unqualified audit report within the meaning of Section 262(1) of the Act and did not contain a statement under sections 237(2) or (3) of the Act. Statutory accounts of the Company for each of the three financial years ended 31 August 1996 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act.
- 13.7 The accounting reference date of the Company is 31 August.
- 13.8 In the Directors' opinion the amount to be raised pursuant to the Placing of the New Ordinary Shares for the purposes set out in paragraph 21(a) of Part IV of Schedule 1 to the Public Offers of Securities Regulations 1995 is:

Purchase and development cost of new factory premises	£900,000
Commissions and costs in respect of the Placing	£250,000
Repayment of borrowed monies	nil
Additional working capital	nil

In addition approximately £18,000 of the expenses of the Placing will be funded from existing working capital.

- 13.9 The amount payable for each Placing Share is 3p. The Placing Price of 3p per Ordinary Share represents a premium above par value of 2.9p per Ordinary Share.

- 13.10 Save as disclosed in this document, there are no significant investments under active consideration.
- 13.11 The Directors are unaware of any exceptional factors which have influenced the Company's recent activities.
- 13.12 Save as disclosed in this document, there are no patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Company's business.
- 13.13 Save as disclosed in this document, there have been no significant recent trends concerning the development of the Company's business nor any significant acquisitions or disposals of assets since 31 August 1996.

14. Availability of Documents

Copies of this document will be available free of charge to the public during normal business hours on any day, (Saturdays, Sundays and public holidays excepted), at the offices of Smith & Williamson, No. 1 Riding House Street, London W1A 3AS from the date of this document until the day 14 days after the date on which Admission takes place, which is expected to be 27 January 1997.

Date: 20 January 1997