

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. When considering what action you should take you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services Act 1986. If you have sold or transferred all your shares in N Brown Group plc, please hand this document, together with the accompanying Report and Accounts and form of proxy, to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Application has been made to the UK Listing Authority and to the London Stock Exchange for the new Ordinary Shares in N Brown Group plc to be allotted pursuant to the proposed Capitalisation Issue referred to in this document, to be admitted to the Official List and to trading on the London Stock Exchange respectively. It is expected that Admission will become effective, and that dealings in the new Ordinary Shares will commence, on 7 July 2000.

N BROWN GROUP plc
Annual General Meeting
and
Proposed Capitalisation Issue,
Proposed Adoption of New Employees' Share Schemes
and
Proposed Amendments to the
Long Term Incentive Share Plan

Notice of the Annual General Meeting to be held on 5 July 2000 is set out on pages 8 – 10 of this document. To be valid, forms of proxy for use at this meeting must be completed and returned so as to be received by the Company's registrar, IRG plc, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 2.30pm on 3 July 2000.

DEFINITIONS

The following principal definitions are used in this document, unless the context otherwise requires:

“the Act”	the Companies Act 1985
“Admission”	admission of the new Ordinary Shares to the Official List and to trading on the London Stock Exchange
“Capitalisation Issue”	the proposed issue of up to 146,336,602 Ordinary Shares pursuant to the proposals set out in this document
“CREST”	the relevant system (as defined in the Regulations) in respect of which CRESTCo Limited is the Operator (as defined in the Regulations)
“Group”	the Company and its subsidiaries
“Existing Option Schemes”	the Company’s executive share option scheme 1990, unapproved share option scheme and employee savings-related share option scheme 1990
“London Stock Exchange”	London Stock Exchange Limited
“N Brown” or “the Company”	N Brown Group plc
“new Ordinary Shares”	new Ordinary Shares to be issued in connection with the Capitalisation Issue
“Ordinary Shares”	ordinary shares of 10p each in the Company
“Record Date”	the record date for the Capitalisation Issue, being close of business on Thursday 6 July 2000
“Regulations”	the Uncertificated Securities Regulations 1995 (SI 1995 No. 93/3272)
“Shareholders”	holders of Ordinary Shares
“UK Listing Authority”	the Financial Services Authority in its capacity as a competent authority under the Financial Services Act 1986

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Record date for 1999 final dividend	Close of business on Friday 23 June 2000
Latest time for receipt of forms of proxy	2.30pm on Monday 3 July 2000
Annual general meeting	2.30pm on Wednesday 5 July 2000
Record date for Capitalisation Issue	Close of business on Thursday 6 July 2000
Definitive share certificates despatched	Friday 7 July 2000
CREST accounts credited	Friday 7 July 2000
Dealings commence in new Ordinary Shares	Friday 7 July 2000
Payment of 1999 final dividend	Friday 21 July 2000

N BROWN GROUP plc
(Registered in England and Wales No 814103)

Directors:

Sir David Alliance CBE (Chairman)*
James Martin (Chief Executive)
Timothy J Kowalski (Finance Director)
Nigel Alliance OBE*
Lawrence D Ziman*
Ivan G Fallon*
Robert H Youngjohns*

Registered Office:

53 Dale Street
Manchester
M60 6ES

* Non-executive

31 May 2000

Dear Shareholder

**Annual general meeting, proposed capitalisation issue,
adoption of new employees' share schemes
and amendments to the long term incentive share plan**

Annual general meeting

The Annual General Meeting is to be held at the Renaissance Manchester Hotel, Manchester on 5 July 2000. You will find on pages 8 – 10 of this document the notice convening this Annual General Meeting. In addition to the ordinary business of the Annual General Meeting, there are eight resolutions to be considered which constitute special business, details of which are set out below.

Capitalisation issue

On 10 May 2000, the Directors announced the preliminary results for the fifty two weeks ended 26 February 2000 and the proposal for a Capitalisation Issue of one new Ordinary Share for each Ordinary Share held.

The Directors consider that the proposed Capitalisation Issue of one new Ordinary Share, credited as fully paid, for every Ordinary Share held should improve the liquidity and marketability of the Ordinary Shares. The Capitalisation Issue will substantially increase the number of Ordinary Shares in issue and will bring the price of Ordinary Shares more into line with the price of other relevant securities listed on the London Stock Exchange.

On the basis of the current issued ordinary share capital comprising 146,336,602 Ordinary Shares, the Capitalisation Issue will result in the allotment of 146,336,602 new Ordinary Shares. This number will increase in the event that the issued ordinary share capital of the Company increases prior to the Record Date, for example upon the exercise of outstanding options under the Existing Option Schemes. The Capitalisation Issue will be effected through the capitalisation of part of the Company's share premium account.

The new Ordinary Shares, which will be in registered form, will be allotted, credited as fully paid, to holders of Ordinary Shares on the register at close of business on the Record Date in the proportion of one new Ordinary Share for every Ordinary Share then held. Accordingly, such shares will not be available in whole or in part to the public, other than to holders of Ordinary Shares at the Record Date. The new Ordinary Shares will have the same rights as existing Ordinary Shares, save that they will not rank for the final dividend in respect of the fifty two weeks ended 26 February 2000, which is proposed to be paid on 21 July 2000.

The Ordinary Shares are listed on the London Stock Exchange. Application has been made to the UK Listing Authority and to the London Stock Exchange for the new Ordinary Shares to be admitted to the Official List and to trading on the London Stock Exchange respectively. Subject to the passing of resolutions 7, 8 and 9 set out in the notice of Annual General Meeting on pages 8 – 10 of this document, it is expected that Admission will become effective, and that dealings in the new Ordinary Shares will commence, on 7 July 2000 and that definitive share certificates in respect of the new Ordinary Shares will be despatched, at the risk of the persons entitled thereto, on 7 July 2000 to those members holding Ordinary Shares in certificated form at the Record Date. For those members holding Ordinary Shares in uncertificated form at the Record Date, the new Ordinary Shares will be issued in uncertificated form and the Company will procure that CRESTCo is instructed to credit, with the entitlement to new Ordinary Shares, the stock account in CREST in which such existing Ordinary Shares are held. No renounceable or other temporary documents of title will be issued in respect of the new Ordinary Shares.

You should be aware that, as a result of the Capitalisation Issue, the price of each Ordinary Share will fall by approximately one half when the Ordinary Shares are marked “ex” capitalisation on 7 July 2000. This is normal for a capitalisation issue and reflects the fact that you will own twice as many Ordinary Shares. The aggregate value of your holding should therefore remain broadly the same. The doubling of the number of Ordinary Shares in issue will necessitate *pro rata* adjustments to prior years’ calculations of earnings per share and dividends per share.

Your attention is drawn to the information set out in the Appendix 1 to this document relating to certain of the rights attaching to the new Ordinary Shares and to taxation.

In accordance with the rules of the Existing Option Schemes, the numbers of Ordinary Shares which may be issued on exercise of outstanding options under such schemes, and, where appropriate, the exercise prices of such options will be adjusted in order to reflect the Capitalisation Issue.

The implementation of the Capitalisation Issue will require an increase in the Company’s authorised share capital and the grant of authority to the Directors pursuant to Section 80 of the Act to allot Ordinary Shares.

Proposed new savings-related share option scheme 2000

As the Company’s existing employee savings-related share option scheme 1990 expires later in 2000, the Directors are proposing to shareholders the adoption of a new savings-related share option scheme 2000 (“the SAYE Scheme 2000”). The SAYE Scheme 2000 will be similar in principle to the scheme which it is replacing and will be open to all employees. The limits on the amount of newly issued share capital that can be utilised for satisfying share options granted under the SAYE Scheme 2000 will be in accordance with the guidelines issued by the Association of British Insurers (“the ABI Guidelines”).

A summary of the principal features of the SAYE Scheme 2000 is contained in Appendix 2 to this document and a draft of its rules is available for inspection as described in note 5 on page 10.

Proposed all employee share ownership plan

As the Company is keen to promote long term shareholding in its shares by a wide employee base, the Directors intend to not only implement the new SAYE Scheme 2000 once adopted by shareholders, but are also seeking shareholders’ approval to establish and operate a new all employee share ownership plan (“the AESOP”). The AESOP, for which Inland Revenue approval will be sought following Royal Assent of the Finance Act 2000, will encourage employees to make a personal investment in the success of the Company.

The limits on the amount of newly issued share capital that can be utilised for share awards made under the plan, will be in accordance with the ABI Guidelines.

A summary of the principal features of the AESOP is contained in Appendix 3 to this document and a draft of its trust deed and rules is available for inspection as described in note 5 on page 10.

Proposed new share plans for executive directors and executives of the Company

The Company’s existing executive share option schemes are due to expire later in 2000 and the Directors seek shareholders’ approval to renew these schemes and authority to amend the Company’s existing long term incentive share plan (“the LTISP”).

The remuneration committee of the board of the Company (“the committee”) has taken this opportunity to review all of the share based incentive schemes available to executive directors, senior executives and other employees of the Group, together with the annual performance related bonus scheme available to executive directors and senior executives. The committee believes that the Company should have available to it a flexible and effective yet

structured means of motivating and rewarding executives. The committee and the Directors are also firmly committed to the principle that the receipt of any benefit, by an executive director or a senior executive, should be linked to the successful achievement of performance targets by the Company, thereby aligning the rewards of participating executives with the performance of the Company and the interests of shareholders.

The New Discretionary Scheme

In order to provide the Company with the flexibility to operate effective share based incentive schemes, the Directors are proposing to shareholders the adoption of two new discretionary share option schemes, the company share option plan (“the CSOP”), which will replace the Company’s existing executive share option scheme 1990, and the unapproved discretionary share option scheme 2000 (“the Unapproved Scheme 2000”), which will replace the Company’s existing unapproved share option scheme. The CSOP and the Unapproved Scheme 2000 (the rules of which are substantially the same) together constitute the New Discretionary Scheme under which participants will be offered options to acquire Ordinary Shares.

Following changes in the ABI Guidelines, it is no longer deemed appropriate by the committee to have a limit on the value of options received by an individual of four times the participant’s remuneration over ten years. Instead, it is intended that options may be granted under the New Discretionary Scheme to an individual in any financial year over shares with a market value, when aggregated with awards under all other discretionary share option schemes made to him in that year, of up to a maximum of twice his annual rate of salary, plus bonuses and commissions. However, it is envisaged that, in general circumstances, the value of shares over which options are granted under the New Discretionary Scheme to an individual in any one financial year will not exceed his annual rate of salary, plus bonuses and commissions.

The CSOP will need to be approved by the Inland Revenue. Formal approval will be applied for following adoption of the Scheme by shareholders. The Unapproved Scheme 2000 is not an Inland Revenue approved scheme and, as such, will not need approval.

The exercise of an option granted under the New Discretionary Scheme will be subject to a performance condition which will be set having regard to the ABI Guidelines and best practice. It is intended that the performance condition for first grants of options will be growth in earnings per share of Retail Price Index + 3% p.a. compounded over a fixed 3 year performance period.

The acquisition of shares and transfer of shares acquired under the New Discretionary Scheme will be coordinated by the use of the company’s existing off-shore trusts.

A summary of the principal features of the New Discretionary Scheme is contained in Appendix 4 to this document and drafts of the rules of the CSOP and the Unapproved Scheme 2000 are available for inspection as described in note 5 on page 10.

Amendments to the LTISP

The Directors are seeking shareholders’ approval to amend the LTISP, under which executive directors and senior executives are awarded rights to acquire shares which vest on achievement of earnings per share growth targets, over a fixed three year performance period.

Approval is being sought for the following changes:

- Previously, if, after the three year performance period, the participant elected not to exercise his right to acquire the shares until a further two years had elapsed, a 50 per cent enhancement of the initial award was made. The Directors propose the removal of the enhanced element of the award.
- The Directors propose an increase in the maximum level of the initial award from 55 per cent to 75 per cent of base salary. The ability to earn the maximum award will continue to be the subject of stretching performance criteria.
- The Directors propose a change to allow participants in the LTISP to receive conditional shares with beneficial ownership passing at the time of the award of the shares which will be held in trust for participants subject to the same performance targets. If they are not met, or are not met in full, some or all the conditional shares are forfeited. If conditional shares are awarded, the participant will receive the benefit of intermediate dividends (either in cash or through dividend reinvestment in shares) and rights issues, but the benefit will be limited to the proportion of the shares which are not forfeited and will only be received at the end of the performance period.

A draft of the rules of the LTISP showing the proposed changes (including other minor changes not affecting the rights and benefits of participants) is available for inspection as described in note 5 on page 10.

Effect of the proposals

Currently, if an individual participates in the LTISP in any financial year, he is not entitled to participate in the New Discretionary Scheme in the same financial year. Under the new proposals, an individual can participate in both schemes in the same year but, if he does so, the expected value of the total award will be assessed in advance. In addition, the committee is intending to enhance the maximum award available under the existing annual performance related bonus scheme, by increasing the maximum award from 50 per cent to 65 per cent of base salary. The additional amount earned will be invested in shares and will be matched by the equivalent value of shares after a further two year deferral period, provided the participant remains in employment.

The committee considers that the combination of the New Discretionary Scheme, together with the amended annual performance related bonus scheme and LTISP will provide flexible incentive arrangements to enable the stated objectives to be met.

Annual General Meeting

The implementation of the Capitalisation Issue, the increase in the authorised share capital which it necessitates, the proposals for the adoption of new employees' share schemes and the amendment of the LTISP all require the approval of the Company's shareholders. Accordingly, at the Annual General Meeting, as well as the ordinary business to be transacted (details of which are set out in the notice on pages 8 – 10 of this document), resolutions will be proposed for the following purposes which constitute special business:

- (i) To give the Board limited authority to allot some part of the Company's authorised but unissued share capital without first having to offer such shares to existing shareholders in accordance with the pre-emption rights set out in section 89 of the Act. The Board's current authority expires at the forthcoming Annual General Meeting and, accordingly, resolution 6 in the notice of meeting will be proposed as a special resolution in order to renew this authority. The proposed new authority will disapply statutory pre-emption rights in respect of allotments in connection with any rights issue (where difficulties arise in offering shares to certain overseas shareholders and in relation to fractional entitlements) and, generally, in connection with allotments of Ordinary Shares having a nominal value of up to £1,463,366.02 (which represents 10 per cent of the issued ordinary share capital of the Company as at 26 May 2000 (being the last practicable date prior to the printing of this document) and approximately 5 per cent of the issued ordinary share capital immediately following the Capitalisation Issue, on the basis that the issued ordinary share capital of the Company does not increase prior to the Record Date) and will terminate 15 months after the date of the passing of the resolution;
- (ii) To increase the authorised share capital of the Company from £19,500,000 to £39,000,000 by the creation of an additional 195,000,000 Ordinary Shares, such increase being so as to enable the Capitalisation Issue to proceed and to maintain thereafter a reasonable amount of unissued ordinary share capital;
- (iii) To grant to the Directors of authority pursuant to section 80 of the Act to allot, or agree to allot, during the period expiring on the earlier of the conclusion of the next Annual General Meeting of the Company and the date being 15 months from the date of the passing of this resolution, 243,663,398 Ordinary Shares which represents approximately 166 per cent of the issued ordinary share capital of the Company as at 26 May 2000 (being the last practicable date prior to the printing of this document). This authority will relate to 146,336,602 new Ordinary Shares which will be allotted pursuant to the Capitalisation Issue (on the basis that the issued ordinary share capital of the Company does not increase prior to the Record Date) and to an additional 97,326,796 Ordinary Shares (being the authorised but unissued ordinary share capital of the Company immediately following the Capitalisation Issue on the same basis).

The Directors have no present intention of allotting, or agreeing to allot, any shares pursuant to the proposed authority, other than in connection with the Capitalisation Issue.

The precise number of new Ordinary Shares that will be allotted pursuant to the Capitalisation Issue cannot be calculated at this stage by virtue of the possibility that the issued ordinary share capital of the Company may change between now and the Record Date.

- (iv) To authorise the Directors to capitalise up to £14,633,660.20 of the amount now standing to the credit of the Company's share premium account in implementing the Capitalisation Issue;

- (v) To renew for a further year the authority for the Company to purchase, in accordance with the provisions of the Act, up to 10 per cent of its issued ordinary share capital at or between the minimum and maximum prices specified in such resolution. There is no present intention to make such purchases but the Directors consider that the flexibility of the authority would be in the best interests of the Company should an appropriate opportunity arise. Furthermore, such authority will only be used in circumstances where the Directors believe, after careful consideration, that any such purchase would result in an increase in expected earnings per share and would be in the best interests of the Company and its shareholders.
- (vi) As at 26 May 2000, options over a total of 3,473,378 unissued Ordinary Shares were outstanding and not exercised. This number of Ordinary Shares represents approximately 2.4 per cent of the Company's issued share capital as at 26 May 2000 (which percentage will remain unchanged once appropriate adjustments are made to existing options following the Capitalisation Issue). It would represent approximately 2.6 per cent of the issued share capital of the Company if the authority to buy the Company's own shares had been used in full at that date.
- (vii) To adopt the SAYE Scheme 2000;
- (viii) To authorise the Directors to establish the AESOP;
- (ix) To adopt the New Discretionary Scheme consisting of the CSOP and the Unapproved Scheme 2000; and
- (x) To authorise the Directors to amend the long term incentive share plan.

Action required

Shareholders will find enclosed with this document a form of proxy for use in respect of your Ordinary Shares at the Annual General Meeting convened by the notice on pages 8 – 10.

WHETHER OR NOT YOU ARE ABLE TO ATTEND THIS MEETING, YOU ARE REQUESTED TO COMPLETE THE RELEVANT FORM OF PROXY AND RETURN IT TO THE COMPANY'S REGISTRAR, IRG PLC, AS SOON AS POSSIBLE AND IN ANY EVENT SO AS TO ARRIVE NOT LATER THAN FORTY-EIGHT HOURS BEFORE THE TIME APPOINTED FOR THE MEETING. COMPLETION AND RETURN OF A FORM OF PROXY WILL NOT PREVENT YOU FROM ATTENDING AND VOTING IN PERSON, SHOULD YOU WISH TO DO SO, AT THE MEETING.

Recommendation

The Directors believe that the Capitalisation Issue, and the associated increase in authorised share capital and grant of allotment authorities, the adoption of the new employees' share schemes and the amendment to the long term incentive share plan, all as described in this document, are in the best interests of the Company and of Shareholders as a whole and unanimously recommend holders of Ordinary Shares to vote in favour of them, as the Directors intend to do in respect of their own beneficial holdings of an aggregate of 65,753,931 Ordinary Shares, representing 44.93 per cent of the present issued ordinary share capital.

Yours faithfully



Sir David Alliance CBE
Chairman

N BROWN GROUP plc

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at the Renaissance Manchester Hotel, Manchester on 5 July 2000 at 2.30 p.m. for the following purposes:

As ordinary business

- 1 To consider and, if thought fit, to adopt the accounts and the report of the Directors for the fifty two weeks ended 26 February 2000.
- 2 To approve the payment of a final dividend of 6.4p per ordinary share in respect of the fifty two weeks ended 26 February 2000.
- 3 To reappoint Sir David Alliance CBE as a Director of the Company.
- 4 To reappoint Lawrence Ziman as a Director of the Company.
- 5 To reappoint Arthur Andersen as auditors and to authorise the Directors to fix their remuneration.

To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

- 6 That the power conferred on the Directors by article 4(C) of the articles of association of the Company (“**the Articles**”) to allot equity securities for cash as if section 89 of the Companies Act 1985 (“**the Act**”) did not apply be renewed for the period expiring 15 months after the passing of this resolution and, for that period, the “section 89 amount” (as defined in the Articles) is £1,463,366.02.

As special business

To consider and, if thought fit (and subject in the case of resolution 8 to the passing of resolution 9), pass the following resolutions which, in the case of resolutions 7 – 9 and 11 – 14 (inclusive) will be proposed as ordinary resolutions and, in the case of resolution 10 will be proposed as a special resolution.

- 7 THAT the authorised share capital of the Company be increased from £19,500,000 to £39,000,000 by the creation of 195,000,000 new ordinary shares of 10p each.
- 8 THAT:
 - (a) in substitution for all other existing authorities pursuant to section 80 of the Act, the Directors be and are hereby generally and unconditionally authorised, in accordance with section 80 of the Act, to exercise all the powers of the Company to allot relevant securities (within the meaning of the Act) up to an aggregate nominal amount of £24,366,339.80 to such persons, at such times and upon such conditions as the Directors may determine (subject to the Articles) such authority to expire, unless previously renewed, varied or revoked at the earlier of the conclusion of the next Annual General Meeting of the Company and the date being 15 months from the date of the passing of this resolution;
 - (b) the Company may at any time prior to the expiry of the authority conferred by sub-paragraph (a) above make offers or agreements which would or might require relevant securities to be allotted pursuant thereto after such expiry.
- 9 THAT the Directors be and are hereby authorised to capitalise a sum of £14,633,660.20 (being part of the amount now standing to the credit of the Company’s share premium account) (or such greater amount as represents the nominal value of the issued share capital of the Company as at the close of business on 6 July 2000) and to appropriate such sum to the holders of the ordinary shares of 10p each of the Company (“**Ordinary Shares**”) on the Register of Members at the close of business on 6 July 2000 in proportion to the nominal amounts of such shares held by them respectively, on the basis that such sum be applied in paying up in full at par new Ordinary Shares and to allot and issue the same, credited as fully paid, to and amongst such holders in the proportion of one new Ordinary Share for every Ordinary Share so held, such new Ordinary Shares to rank in full for all dividends or other distributions declared, made or paid after the date of passing of this resolution (save that they will not rank for the final dividend payable in respect of the fifty two weeks ended 26 February 2000 to holders of Ordinary Shares on the Register at close of business on 23 July 2000) and otherwise *pari passu* in all respects with the existing issued Ordinary Shares.

- 10 THAT, subject to the Articles and section 166 of the Act, the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163(3) of the Act) of Ordinary Shares subject to the terms set out below but otherwise on terms and in such manner as the Directors may, from time to time, decide:
- (a) the maximum aggregate number of Ordinary Shares authorised to be purchased is 29,267,320 (representing approximately 10 per cent of the issued ordinary share capital of the Company immediately following the Capitalisation Issue);
 - (b) the minimum price which may be paid for an Ordinary Share is 10p (exclusive of tax and expenses);
 - (c) the maximum price which may be paid for an Ordinary Share is 5 per cent above the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that Ordinary Share is purchased (exclusive of tax and expenses); and
 - (d) the authority hereby granted shall expire on the earlier of 15 months from the date of this resolution and or the conclusion of the next annual general meeting of the Company provided that a contract of purchase may be made before such expiry which will or may be executed wholly or partly after the expiry of this authority and the purchase of Ordinary Shares may be made in pursuance of any such contract.
- 11 THAT the N Brown Group plc savings-related share option scheme 2000 (“**the SAYE Scheme 2000**”), described in the document of which the notice containing this resolution forms part and to be constituted by the rules produced in draft to this meeting and for the purpose of identification initialled by the chairman of the meeting, be adopted, subject to such amendments thereto as the Directors of the Company consider necessary or desirable to obtain the approval of the Inland Revenue thereto, and the Directors be and are hereby authorised to make such amendments and do all such things as are necessary or desirable to obtain the approval of the Inland Revenue thereto and to carry the SAYE Scheme 2000 into effect.
- 12 THAT the Directors of the Company be authorised to establish the N Brown Group plc all employee share ownership plan (“**the AESOP**”), described in the document of which the notice containing this resolution forms part and to be constituted by a trust deed and rules substantially in the form produced in draft to this meeting and for the purpose of identification initialled by the chairman of the meeting, and to make such amendments to the trust deed and rules as they consider necessary or desirable to obtain the approval of the Inland Revenue thereto and do all such other things as may be necessary or desirable to carry the AESOP into effect.
- 13 THAT:
- (a) the N Brown Group plc company share option plan (“**the CSOP**”), described in the document of which the notice containing this resolution forms part and to be constituted by the rules produced in draft to this meeting and for the purpose of identification initialled by the chairman of the meeting, be adopted, subject to such amendments thereto as the Directors of the Company consider necessary or desirable to obtain the approval of the Inland Revenue thereto, and the Directors be and are hereby authorised to make such amendments and do all such things as are necessary or desirable to obtain the approval of the Inland Revenue thereto and to carry the CSOP into effect; and
 - (b) the N Brown Group plc unapproved discretionary share option scheme 2000 (“**the Unapproved Scheme 2000**”) described in the document of which the notice containing this resolution forms part and to be constituted by the rules produced in draft to this meeting and for the purpose of identification initialled by the chairman of the meeting, be adopted and the Directors be and are hereby authorised to do all such things as are necessary or desirable to carry the Unapproved Scheme 2000 into effect.

- 14 THAT the Directors of the Company be authorised to amend the rules of the N Brown Group plc long term incentive share plan in the manner and to the extent described in the document of which the notice containing this resolution forms part and in the draft revised rules produced to this meeting and, for the purposes of identification, initialled by the chairman of the meeting.

By Order of the Board

Paul Grundy FCA
Secretary
31 May 2000

Registered Office:
53 Dale Street
Manchester
M60 6ES

Registered in England No. 814103

- (1) The biographies of those Directors seeking reappointment appear on page 16 of the annual report and accounts.
- (2) A member of the Company entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. The proxy need not be a member of the Company.
- (3) To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at or sent by facsimile to the Company's registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time for holding the meeting. Any instrument appointing a proxy which is sent by facsimile shall not be treated as valid unless the original of such instrument is deposited at the registrar's office prior to the time for holding the meeting.
- (4) A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting.
- (5) Copies of all Directors' service agreements will be available for inspection at the Company's registered office during normal business hours on each business day from the date of this document until 5 July 2000.

Copies of the draft rules of the CSOP, the Unapproved Scheme 2000 and the SAYE Scheme 2000, of the draft trust deed and rules of the AESOP and of the rules of the long term incentive plan marked to show the proposed changes will also be available for inspection during the same period at the Company's registered office and at the offices of Addleshaw Booth & Co, 60 Cannon Street, London EC4N 6NP.

All of such documents will also be available for inspection at the place where the Annual General Meeting is to be held from 2.15 pm on 5 July 2000 until the conclusion of such Annual General Meeting.
- (6) In accordance with Regulation 34(1) of the Uncertificated Securities Regulations 1995 the Company specifies that only those shareholders registered in the Company's register of members at 5 p.m. on Monday 3 July 2000 (or, in the case of an adjournment, as at 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the meeting and that the number of votes which any such shareholder may cast, upon a poll, will be determined by reference to the number of shares registered in such shareholder's name at that time.

APPENDIX 1

Summary of rights attaching to the new Ordinary Shares and taxation in connection with the Capitalisation Issue

1 Rights attaching to the new Ordinary Shares

1.1 The Articles of Association of the Company include, or incorporate, *inter alia*, provisions to the following effect:

(a) *Voting Rights*

At any general meeting, on a show of hands, every member present in person shall have one vote and, in the case of a poll, every member present as aforesaid or by proxy shall have one vote for every share of which he is the holder.

A member shall, however, be disenfranchised in the event of non-payment of calls or other moneys due and payable in respect of shares or non-compliance after a fixed number of days (not being less than 14 days) with a statutory notice under section 212 of the Act requiring disclosure as to beneficial ownership of Ordinary Shares.

(b) *Transferability of shares*

The Ordinary Shares are in registered form. Any member may transfer all or any of his shares in certificated form by an instrument of transfer in writing in any usual or other form approved by the Board of Directors which is signed by the transferor and (in the case of a partly paid share) by the transferee. A member may transfer all or any of his shares in uncertificated form in accordance with the Regulations. The Directors may, in their absolute discretion and without assigning any reason therefor, refuse to register the transfer of a certificated share which is not a fully paid share and a transfer of an uncertificated share on which the Company has a lien. The Directors may not refuse to register a transfer of the Ordinary Shares if the Ordinary Shares have been admitted to the Official List of the London Stock Exchange and such refusal would prevent dealings in Ordinary Shares from taking place on an open and proper basis. There is no restriction on the registration of a duly stamped transfer of fully paid shares provided that the transfer (i) is lodged at the registered office of the Company, or such other place as the Directors may appoint, accompanied by the relevant share certificate and such other evidence of ownership as the Directors may reasonably require (ii) is in respect of only one class of share and (iii) it is in favour of a single transferee or not more than four joint transferees. If any of the above conditions are not complied with the Directors have discretion whether or not to register the transfer in question.

(c) *Dividends*

- (i) Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors.
- (ii) Any dividend unclaimed after a period of twelve years from the date they became due for payment shall be forfeited and shall revert to the Company.
- (iii) All dividends shall be apportioned and paid proportionately to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid up.
- (iv) If dividends are returned to the Company or left uncashed on two consecutive occasions, the Company will not be obliged to send further payments in respect of such shares until the relevant member notifies the Company of an address for this purpose.
- (v) The Directors have the power, with the sanction of an ordinary resolution of the Company in general meeting, to offer holders of Ordinary Shares the option to receive further Ordinary Shares, credited as fully paid, in lieu of a cash dividend.
- (vi) Subject to the provisions of the Act, the Directors may pay interim dividends if it appears to them that they are justified by the profits of the Company available for distribution.

(d) *Variation of rights and changes in capital*

- (i) All and any of the rights and privileges for the time being attached to any class of shares may be varied or abrogated in such manner (if any) as may be provided by such rights, with the consent in writing of the holders of not less than seventy five per cent in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of the class. To every such separate meeting, the provisions of the Articles relating to general meetings shall, *mutatis mutandis*, apply except that the necessary quorum shall be a least two persons holding or representing by proxy not less than one third in nominal value of the issued shares of the class, that any holder of shares of the class present in person or by proxy may demand a poll, that the holders of shares of the class shall on a poll have one vote for each share of the class held by them respectively and that if at any adjourned meeting of such holders a quorum as defined above is not present then any one holder of shares of the class present in person shall be a quorum.
- (ii) The Company may by ordinary resolution consolidate and divide all or any of its shares into shares of larger amount, increase its share capital, sub-divide its shares into shares of smaller amount and cancel shares not taken or agreed to be taken by any person and diminish the amount of its capital by the amount of the shares so cancelled.
- (iii) The Company may by special resolution reduce its share capital or capital redemption reserve or share premium account in any manner subject to the provisions of the Act and to any rights for the time being attached to any shares.

2 **Taxation**

The statements below are general in character and are intended only as a general guide to certain aspects of current United Kingdom (“UK”) tax law and the current practice of the UK Inland Revenue (“**the Inland Revenue**”). The statements assume that Ordinary Shares are held as an investment not as an asset of a financial trade. Persons who are in any doubt about their tax position, and in particular those who are subject to taxation in a jurisdiction other than the UK, are strongly advised to consult their own professional adviser.

(a) *Capitalisation Issue*

Your Directors have been advised that the Capitalisation Issue will be treated as a re-organisation for the purpose of UK taxation of capital gains.

This means that the issue of new Ordinary Shares will not itself give rise to any liability to UK tax on capital gains. Any sale by shareholders of some or all of their new Ordinary Shares will, however, constitute a disposal for the purposes of UK taxation of capital gains and may, depending upon a shareholder’s individual circumstances, give rise to a tax liability.

(b) *The new Ordinary Shares*

(i) *Taxation of dividends and distributions*

Under current UK tax legislation, no withholding tax will be deducted from dividends paid by the Company.

An individual shareholder who is resident in the UK for tax purposes and who receives a dividend will be entitled to a tax credit in respect of the dividend and will be taxable on the aggregate of the net dividend received and the tax credit (“**gross dividend**”). The value of the tax credit is currently one-ninth of the net dividend (or ten per cent of the gross dividend). The gross dividend is treated as the top slice of such individual’s income. An individual so resident who is not liable to income tax in respect of the gross dividend will not be able to claim repayment of the tax credit from the Inland Revenue. In the case of an individual so resident who is not liable to income tax at a rate greater than the basic rate, the tax credit will discharge his liability to income tax in respect of the gross dividend and there will be no further tax to pay and no right to claim any repayment of the tax credit from the Inland Revenue. In the case of an individual so resident who is liable to income tax at the higher rate on dividends (currently 32.5 per cent) the tax credit will be set against his tax liability in respect of the gross dividend and accordingly, he will have to pay additional tax at the rate of 22.5 per cent of the gross dividend, to the extent that the gross dividend falls above the threshold for higher rate income tax.

Subject to certain exceptions a shareholder which is a company resident in the UK for tax purposes will not be liable to UK corporation tax on any dividend received from the Company.

UK pension funds are no longer entitled to reclaim tax credits on dividends paid by the Company. Subject to transitional phasing out, UK charities will not be eligible for payment from the Inland Revenue of the amount of the tax credit attaching to dividends paid by the Company.

A non-UK resident shareholder is not generally entitled to reclaim tax credits from the Inland Revenue in respect of any dividend received. An entitlement to the payment of the tax credit may, however, be available if there is an appropriate provision granting the entitlement under any applicable double taxation convention or agreement between the country in which the holder is resident for tax purposes and the UK. However, the amount payable under any such double tax treaty (if anything) will generally be less than one per cent of the dividend to which it relates. A shareholder who is not resident in the UK for tax purposes should consult his own tax adviser concerning his liabilities on dividends received, his entitlement to reclaim any part of the tax credit and, if he is so entitled, the procedure for doing so. A shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law.

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

Except in relation to certain categories of person, including market makers, brokers, dealers and person connected with depository arrangements or clearance services, where special rules apply no stamp duty or stamp duty reserve tax will be payable on the issue of new Ordinary Shares pursuant to the Capitalisation Issue.

APPENDIX 2

Summary of the SAYE Scheme 2000

The principal features of the SAYE Scheme 2000, the terms of which are set out in full in its rules, are as follows:

1 Eligible employees

All UK employees (including executive directors) of the Company (or of any subsidiary to which the SAYE Scheme 2000 may be extended) who have been employed for a minimum period (not exceeding 4 years and 10 months) fixed by the directors are entitled to participate in the SAYE Scheme 2000, provided that an employee who is a director of the Company or of any participating subsidiary is only entitled to participate as of right if he or she normally works a minimum of 25 hours per week (excluding meal breaks). In addition, the directors may permit other employees (including part-time executive directors) to participate in the SAYE Scheme 2000.

2 Invitations

Invitations to take up options may be sent out by the Company during each period commencing on the third dealing day and ending on the 42nd day after the announcement of the Company's results for any period to the London Stock Exchange. Invitations may also be sent out at any time when the board of directors resolves that exceptional circumstances exist which justify the grant of options.

3 Savings contracts

To join the SAYE Scheme 2000, an eligible employee must enter into a save-as-you-earn contract (a "Savings Contract") with a bank or building society, thereby agreeing to make monthly contributions for a period of three or five years. The minimum monthly contribution is £5 per month (or such greater sum, not being more than £10 or other statutory limit, as the directors decide) and the maximum monthly contribution is £250 (or such lesser sum as the directors decide). If he or she saves for five years and the directors permit, he or she can elect whether, for the purpose of exercising options, to take a five or seven year bonus. The bonus is tax free in the United Kingdom.

4 Applications and option price

Each employee who enters into a Savings Contract will be entitled in consideration thereof to apply for an option to acquire ordinary shares at a price determined by the directors, being not less than 80 per cent. of the average of the middle-market quotations for such ordinary shares as derived from the Daily Official List of the London Stock Exchange for the three dealing days immediately preceding the date upon which invitations to apply for options are issued to employees, subject, in the case of options to subscribe for unissued ordinary shares, to a minimum price equal to the nominal value of an ordinary share.

5 Options

Options may be granted by the Company or by any other person who has entered into an agreement with the Company to do so. The number of Ordinary Shares over which an option may be granted must be limited to that number which may be acquired at the option price out of the repayment proceeds of the relevant Savings Contract. Options are not transferable and may only be exercised by the persons to whom they were granted or their personal representatives.

Options may not be granted more than ten years after the SAYE Scheme 2000 has been adopted by the Company in general meeting.

6 Exercise of options

Options will normally only be exercisable for a period of six months commencing on the maturity of the related Savings Contract (i.e. after 3, 5 or 7 years as appropriate) and, if not exercised by the end of that period, will lapse. Options may, however, be exercised earlier than this in certain specified circumstances, including death, ceasing employment on account of injury, disability or redundancy, retirement at age 65, the sale of the business or subsidiary for which the employee works, reaching age 65 without retiring and, where the option has been held for at least three years, early retirement or retirement after reaching age 65. Exercise is allowed in the event of an amalgamation, reconstruction or takeover of the Company; alternatively, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company or a company associated with the acquiring company. Options may also be exercised in the event of the voluntary winding-up of the Company.

7 Issue or transfer of shares on exercise of options

On the exercise of an option granted by the Company, the Company may issue unissued ordinary shares to the participant or procure the transfer to the participant of issued ordinary shares by the holder thereof.

Ordinary Shares issued or transferred following exercise of an option will rank *pari passu* in all respects and form one class with the ordinary shares then in issue, save as regards dividends payable by reference to a record date prior to the date of allotment or transfer.

8 Limits on the issue of ordinary shares

In any ten year period:

- (a) the number of unissued Ordinary Shares placed under option in that period under the SAYE Scheme 2000 and any other share option scheme of the Company; and
- (b) the number of Ordinary Shares issued in that period pursuant to any other employees' share schemes of the Company;

shall not exceed in aggregate 10 per cent of the Company's issued ordinary share capital for the time being

For the purposes of the limit described above, shares in respect of which options which have lapsed cease to count. Furthermore the issue of Ordinary Shares to any employee benefit trust for the purpose of satisfying options granted by the Company under any of its share option schemes will not be counted for the purposes of the limits described above if such shares are so counted in relation to the grant of such options.

9 Adjustments

The number of Ordinary Shares subject to any option and the option price are subject to appropriate adjustment in the event of any capitalisation issue (other than a scrip dividend which is not an enhanced scrip dividend) or rights issue by the Company or any consolidation, sub-division or reduction of the Company's share capital or any other variation in the Company's share capital, subject (except in the case of a capitalisation issue other than an enhanced scrip dividend) to the auditors confirming in writing that such adjustment is fair and reasonable. No adjustment will be effective until approved by the Inland Revenue.

10 Amendments

The directors may make minor amendments to benefit the administration of the SAYE Scheme 2000, to take account of changes in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the SAYE Scheme 2000 or for the Company or its subsidiaries. Save as set out above, no amendment to the advantage of participants may be made, without the prior approval of shareholders in general meeting, to the following provisions of the SAYE Scheme 2000:

- (a) the definition of those eligible to participate;
- (b) the times at which and the circumstances in which options may be granted or exercised;
- (c) the basis of calculation of the option price;
- (d) the basis of adjustments to the option price and the number of Ordinary Shares subject to options;
- (e) the basis of calculation of the total numbers of Ordinary Shares available for the SAYE Scheme 2000;
- (f) the basis of calculation of the limits on an individual's participation; and
- (g) the rules relating to amendment of the SAYE Scheme 2000.

No amendment to the SAYE Scheme 2000 will be effective until approved by the Inland Revenue.

11 Benefits non-pensionable

Options granted and Ordinary Shares acquired under the SAYE Scheme 2000 are non-pensionable.

The summary above does not form part of, and should not be taken as affecting the interpretation of, the detailed terms and conditions constituting the rules of the SAYE Scheme 2000.

The directors reserve the right, up to the time of the annual general meeting, to make such amendments and additions to the draft rules of the SAYE Scheme 2000 (which are available for inspection as described in note 5 on page 10) as they may consider necessary or desirable, provided that such amendments and additions to the rules do not conflict in any material respect with the summary set out above.

APPENDIX 3

Summary of the new all employee share ownership plan

The principal features of the AESOP, the terms of which will be set out in full in its trust deed and rules, are as follows

1. Introduction

The AESOP will be established by a trust deed and rules. The trustee will be a UK resident subsidiary of the company.

Under the AESOP, the Company will be able to provide an opportunity to acquire shares in the Company to all or most UK employees (including executive directors) of the Company itself and of any subsidiary which joins in the AESOP. Shares so acquired may consist of free, partnership or matching shares as described below. On each occasion when the AESOP is operated, the Company will determine whether eligible employees will only be offered free shares or whether they will only be offered partnership shares or whether they will be offered both free shares and partnership shares. If the Company issues partnership shares to eligible employees, the Company may also award matching shares to them.

All eligible UK resident employees who (if the Company requires it) have completed a qualifying period of employment must be invited to join in any offer of shares. Those who agree to join in the plan are called participants below.

Participants who leave their shares in the trust for at least five years pay no income tax or national insurance contributions on the value of these shares and any growth in value until the shares are withdrawn from the AESOP is free of capital gains tax.

All benefits under the AESOP will be non-pensionable. No offer may be made more than 10 years after the AESOP is established.

2. Free shares

The Company may award shares to participants free of charge up to a maximum market value of £3,000 in any tax year. The Company may give shares to all participants in an award either on the basis of an equal number to all participants or on a basis linked to salary or length of service. Alternatively, the Company may set performance targets so that the number of free shares that an individual participant receives is determined by the performance of the performance unit in which he works or of which he is a member. A performance unit can, if appropriate, consist of a single individual.

Save as described below, the free shares must be held in the trust for three years and the Company may specify that all free shares awarded at the same time must be held for up to five years.

The participant's free shares are withdrawn from the AESOP if he leaves employment but there will be PAYE and national insurance liabilities if he leaves within five years of the award in circumstances other than by reason of his death or on account of injury, disability, redundancy or retirement or because the subsidiary which employs him or the business in which he is employed is sold.

The Company may specify when making an award of free shares that, if any participant in that award ceases to be employed within three years of the award, otherwise than for one of the good leaver reasons described above, his free shares will be forfeited.

3. Partnership shares

Partnership shares are shares in the Company which the participant purchases out of his pre-tax salary. The legislation will require the AESOP to include a limit on the maximum amount of salary which a participant may spend on partnership shares each month, which will be the lower of £125 and 10 per cent of his salary. The Company may impose a lower limit in relation to any particular award. Shares will either be bought monthly or at the end of an accumulation period not exceeding one year. Where there is an accumulation period, the number of shares which the participant acquires is determined by dividing the amount of salary he has accumulated for the purpose by the lower of the price of the shares on the London Stock Exchange at the beginning and at the end of the accumulation period.

The participant can withdraw his partnership shares from the AESOP at any time and the partnership shares will be withdrawn from the AESOP if he leaves employment. There will be PAYE and national insurance contributions when partnership shares are withdrawn within five years of their purchase, unless this is because the participant has left employment for one of the good leaver reasons described above. Partnership shares cannot be forfeited.

4. Matching shares

The Company may award additional matching shares in the Company free of charge to a participant who has bought partnership shares. The number of matching shares awarded will be based on the number of partnership shares bought by the participant, up to a maximum of two matching shares for each partnership share bought. Matching shares are treated in the same way as free shares and are subject to the same provisions for holding periods and forfeiture as free shares, but, in addition, the Company may provide as a condition of awarding matching shares on any occasion that if any participant in that award withdraws his partnership shares within three years after they were bought, his matching shares are forfeited. The tax consequences of matching shares being withdrawn from the AESOP are the same as for free shares.

5. Dividend shares

The Company may require, or offer participants the right to elect, that cash dividends are reinvested in shares. The dividend shares must be held in the trust for three years except that they must be withdrawn on the participant leaving employment. There will be income tax payable if the dividend shares are withdrawn within three years of their purchase, unless this is because the participant has left employment for one of the good leaver reasons described above. Dividend shares cannot be forfeited.

6. Limits on the issue of shares

In any ten year period:

- (a) the number of unissued Ordinary Shares placed under option in that period under the Company's share option schemes; and
- (b) the number of Ordinary Shares issued in that period pursuant to the AESOP and any other employees' share schemes of the Company (other than share option schemes);

shall not exceed in aggregate 10 per cent of the Company's issued ordinary share capital for the time being.

For the purposes of the limit described above, shares in respect of which options which have lapsed cease to count. Furthermore the issue of ordinary shares to any employee benefit trust for the purpose of satisfying options granted by the Company under any of its share option schemes will not be counted for the purposes of the limits described above if they have been so counted in relation to the grant of such options.

7. Alterations

The Company may change the rules and trust deed of the AESOP but will not make any change without shareholders' approval if it is to the advantage of participants and concerns any of the provisions relating to eligibility, individual limits on taking part, overall limits on the issue of shares, the rights attaching to the shares used, the rights of participants on a variation on share capital and the amendment rule itself.

The Company will not, however, require shareholders' approval if the changes are minor and are to benefit the administration of the AESOP, to take account of changes in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the company or any other member of the Group. No changes to the key features of the AESOP can be made whilst the AESOP is approved by the Inland Revenue, unless the Inland Revenue agrees.

The summary above does not form part of, and should not be taken as affecting the interpretation of, the detailed terms and conditions constituting the trust deed and rules of the AESOP.

The directors reserve the right, up to the time of the annual general meeting, to make such amendments and additions to the draft trust deed and rules of the AESOP (which are available for inspection as described in note 5 on page 10) as they may consider necessary or desirable, provided that such amendments and additions to the trust deed and rules do not conflict in any material respect with the summary set out above.

APPENDIX 4

Summary of the New Discretionary Scheme

The New Discretionary Scheme consists of two parts, the CSOP, for which approval will be sought from the Inland Revenue, and the Unapproved Scheme 2000.

The rules of the CSOP and the Unapproved Scheme 2000 are substantially the same and the summary below relates both to the CSOP and the Unapproved Scheme 2000 unless otherwise stated.

The principal features of the New Discretionary Scheme, the terms of which are set out in the respective rules of the CSOP and the Unapproved Scheme, are as follows:

1 Regulation

The New Discretionary Scheme will be regulated by the board of the Company or a committee of the board (“**the Board**”). In practice, operation of the New Discretionary Scheme in respect of grants of options to executive directors of the Company will be delegated to the remuneration committee of the board of the Company.

2 Eligible employees

All employees (including executive directors) of the Group are eligible for selection by the Board to participate in the New Discretionary Scheme, provided that an employee who is an executive director of any company in the Group must work at least 25 hours a week (excluding meal breaks). Options will not be granted to directors or employees who are within two years of their normal retirement date.

3 Grants of options

Options may be granted by the Company or by any other person who has agreed with the Company to do so.

Options may be granted during each period commencing on the third dealing day after and ending on the 42nd day after the announcement of the Company’s results for any period to the London Stock Exchange. Options may also be granted at any time when the Board resolves that exceptional circumstances exist which justify the grant of an option or options. Options may not be granted more than ten years after the New Discretionary Scheme is adopted by the Company.

The Board will in its discretion determine which eligible directors and employees are to be granted options and the number of Ordinary Shares to be comprised in such options.

No payment is required for the grant of an option. Options granted will be personal to the participants to whom they are granted and may not be transferred or assigned. However, they will be exercisable by the legal personal representative of a participant who dies before exercising his option.

4 Option price

The price per Ordinary Share payable on the exercise of an option will be determined by the Board and will not be manifestly less than the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange on each of the three dealing days immediately preceding the date of grant of the option, subject, in the case of options to subscribe for unissued Ordinary Shares, to a minimum price equal to the nominal value of an Ordinary Share.

5 Performance conditions

The Board may impose one or more performance conditions which will determine the extent to which, if at all, an option may be exercised.

It is intended that performance conditions will be measured over a fixed period of not less than three financial years.

It is currently intended that the performance conditions applicable to any option granted within the 12 months following adoption of the New Discretionary Scheme will be subject to a performance condition that the increase in the Company’s earnings per share over the three financial years commencing with the financial year in which the option is granted will exceed the increase in the retail prices index over the same period by at least 3 per cent a year.

The performance conditions applicable to any grants of options made in any financial year will be fully disclosed in the Company’s annual report and accounts for that year.

6 Exercise of options

An option will not normally be exercisable until three years from the date of its grant and thereafter only if the participant remains a director or employee.

An option may, however, be exercised after cessation of employment, notwithstanding that such period of three years has not elapsed, if the cessation is by reason of death or on account of illness, injury, disability or redundancy, retirement at or after normal retirement date, early retirement with the consent of the Board or the sale of the business or subsidiary for which the employee works. If the participant ceases to be employed in any other circumstances, the Board has discretion to permit exercise after cessation of employment

Options will lapse if the participant ceases employment otherwise than in the circumstances referred to above.

Exercise is allowed in the event of an amalgamation, reconstruction or take-over of the Company. Alternatively, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company or a company associated with the acquiring company. Options may also similarly be exercised in the event of a voluntary winding-up or demerger of the Company.

An option may not be exercised after the expiry of a period of ten years from the date of its grant or such shorter period as may be specified at the time of grant.

7 Issue or transfer of shares on exercise of options

Ordinary shares issued or transferred following exercise of an option will rank *pari passu* in all respects and form one class with the Ordinary Shares then in issue, save as regards dividends payable by reference to a record date prior to the date of allotment or transfer.

8 Limits on individuals' participation

Options may not be granted under the New Discretionary Scheme or under any other discretionary share option scheme to any participant in any financial year of the Company which may be or become exercisable over a number of shares in the Company having an aggregate market value (calculated at the date of grant or the respective dates of grant) exceeding twice the higher of (a) his annual rate of remuneration (exclusive of bonuses, commissions and benefits in kind) from the Group plus bonuses and commissions payable to him in the preceding financial year; and (b) his remuneration (inclusive of bonuses and commissions but exclusive of benefits in kind) paid to him in the 12 months immediately preceding the date of grant.

In addition, to meet Inland Revenue requirements for approval of the CSOP, the market value of Ordinary Shares over which an option is granted to any individual under the CSOP must not, when aggregated with the market value (calculated at the respective dates of grant) of the shares comprised in all other outstanding and unexercised Inland Revenue approved options then held by that individual, which were granted under the CSOP or any other Inland Revenue approved share option scheme (other than a savings-related share option scheme) established by the Company or any associated company of the Company, exceed £30,000 or any other statutory limit applicable for the time being.

9 Limits on the issue of ordinary shares

In any ten year period:

- (a) the aggregate of:
 - (i) the number of unissued Ordinary Shares placed under option in that period under the New Discretionary Scheme and any other share option scheme or employee share scheme of the Company; and
 - (ii) the number of Ordinary Shares issued in that period pursuant to any other employees' share schemes of the Company;

shall not exceed 10% of the Company's issued ordinary share capital for the time being; and

- (b) the aggregate number of unissued ordinary shares placed under option in that period under the New Discretionary Scheme and any other discretionary employee share scheme of the Company shall not exceed 5 per cent of the Company's issued ordinary share capital for the time being.

For the purposes of the limits described above, shares in respect of options which have lapsed cease to count. Furthermore the issue of Ordinary Shares to any employee benefit trust for the purpose of satisfying options granted by the Company under any of its share option schemes will not be counted for the purposes of the limits described above if such shares are so counted in relation to the grant of such options.

10 Adjustments

The number of Ordinary Shares subject to any option and the option price are subject to appropriate adjustment in the event of any capitalisation issue (other than a scrip dividend which is not an enhanced scrip dividend) or rights issue by the Company or any consolidation, sub-division or reduction of the Company's share capital or any other variation in the Company's share capital, subject (except in the case of a capitalisation issue other than an enhanced scrip dividend) to the auditors confirming in writing that such adjustment is fair and reasonable. No adjustments made under the CSOP will be effective until approved by the Inland Revenue.

11 Amendments

The Board may make minor amendments to benefit the administration of the New Discretionary Scheme, to take account of changes in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the New Discretionary Scheme or for the Company or other members of the Group.

Save as set out above, no amendment to the advantage of participants may be made, without the prior approval of shareholders in general meeting, to the following provisions of the New Discretionary Scheme:

- (a) the definition of those eligible to participate;
- (b) the times at which and the circumstances in which options may be granted or exercised;
- (c) the basis of calculation of the option price;
- (d) the basis of adjustments to the option price and the number of ordinary shares subject to options;
- (e) the basis of calculation of the total numbers of ordinary shares available for the New Discretionary Scheme;
- (f) the basis of calculation of the limits on an individual's participation; and
- (g) the rules relating to amendment of the New Discretionary Scheme.

No amendment to the CSOP will be effective until approved by the Inland Revenue.

12 Benefits non-pensionable

Options granted and Ordinary Shares acquired under the New Discretionary Scheme are non-pensionable.

The summary above does not form part of, and should not be taken as affecting the interpretation of, the detailed terms and conditions constituting the rules of the New Discretionary Scheme.

The Directors reserve the right, up to the time of the annual general meeting, to make such amendments and additions to the draft rules of the New Discretionary Scheme (which are available for inspection as described in note 5 on page 10) as they may consider necessary or desirable, provided that such amendments and additions to the rules do not conflict in any material respect with the summary set out above.