

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or about what action you should take, you should consult a person authorised for the purposes of the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

Application will be made for the entire issued and to be issued share capital of the Company to be admitted to trading on AIM. Subject to such admission becoming effective, it is expected that dealings in the Ordinary Shares will commence on 12 July 2004. It is emphasised that no application has been made or is being made for the admission of the securities to the Official List or to trading on the London Stock Exchange's market for listed securities.

A copy of this document, which has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (as amended) (the "POS Regulations") and the AIM Rules, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations. Accordingly, the restriction on communicating financial promotions does not apply to this document by virtue of article 72 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. A copy of this document, having attached thereto copies of the material contracts, reports and consents referred to herein, has been delivered to the Companies Registry maintained by the Isle of Man Financial Supervision Commission for registration as a prospectus pursuant to Section 38 of the Isle of Man Companies Act 1931.

The Directors, whose names are set out on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Hotel Corporation plc

(Registered in the Isle of Man under the Companies Acts 1931 to 1993 with No. 111066C)

Placing of 22,000,000 Ordinary Shares at £1 per share Admission to trading on the AIM Market

Nominated Adviser Shore Capital and Corporate Limited

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger more established companies. AIM securities are not admitted to the official list of the UKLA. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document.

Shore Capital and Corporate Limited is the nominated adviser to the Company for the purposes of the AIM Rules. Shore Capital, which is authorised and regulated in the United Kingdom in the conduct of investment business by The Financial Services Authority, is acting exclusively for the Company and no one else in connection with the matters described herein and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Shore Capital or for advising any other person on the contents of this document or any matter referred to herein. Shore Capital has not authorised the contents of this document for the purposes of regulation 13(1)(g) of the POS Regulations and no representation or warranty express or implied, is made by Shore Capital as to any of the contents or completeness of this document. Shore Capital's responsibilities as the nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director. No representation or warranty, express or implied, is made by Shore Capital as to the contents of this document (without limiting the statutory rights of any person to whom this document is issued).

The Placing is conditional, *inter alia*, on Admission taking place on or before 12 July 2004 (or such later date as the Company and Shore Capital may agree). The Ordinary Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission.

The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under the registered securities legislation of any state of the United States of America. The relevant clearances have not been, and will not be, obtained from the Securities Commission or any province or territory of Canada. No document in relation to Admission or the Placing has been, or will be, lodged with, or registered by, the Australian Securities Commission, and no registration statement, has been, or will be, filed with the Japanese Ministry of Finance, in relation to Admission or the Placing. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States, Canada, Australia or Japan (the "Prohibited Territories") or offered or sold to a person within the Prohibited Territories.

This document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or to subscribe for, Placing Shares in any jurisdiction in which such an offer or solicitation is unlawful and is not for distribution in or into the Prohibited Territories. This document should not be copied or distributed by recipients and, in particular, should not be distributed by any means, including electronic transmission, to persons with addresses in any of the Prohibited Territories or to any citizens, residents or nationals thereof, or to any corporation, partnership or other entity created or organised under the laws thereof. Any such distribution could result in violation of the laws of such countries. The Ordinary Shares may not be acquired by persons resident in the Isle of Man except for persons who are exempt from taxation therein.

Copies of this document which is dated 9 July 2004 will be available free of charge to the public during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the registered office of the Company and from the offices of Shore Capital and Corporate Limited from the date of Admission for not less than one month thereafter.

The whole text of this document should be read. Your attention is drawn to the risk factors set out in Part 3.

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DIRECTORS AND ADVISERS

Directors	James Barclay Douglas CA LLB Donald Lindsay Adamson MA MSI Ita Mary McArdle LLB Derek William Short FCIB MSI FInstD <i>All of:</i> 1st Floor, 28 Victoria Street Douglas Isle of Man IM1 2LE
Registered Office	1st Floor, 28 Victoria Street Douglas Isle of Man IM1 2LE
Company Secretary	Ita Mary McArdle LLB 1st Floor, 28 Victoria Street Douglas Isle of Man IM1 2LE
Nominated Adviser	Shore Capital and Corporate Limited Bond Street House 14 Clifford Street London W1S 4JU
Stockbroker	Shore Capital Stockbrokers Limited Bond Street House 14 Clifford Street London W1S 4JU
Solicitors to the Company	SJ Berwin 222 Gray's Inn Road London WC1X 8XF
Isle of Man Advocates to the Company	Simcocks Advocates Limited Ridgeway House Ridgeway Street Douglas Isle of Man IM99 1PY
Auditors and Reporting Accountants	Baker Tilly 2 Bloomsbury Street London WC1B 3ST
Receiving Agents and Registrars	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH
Isle of Man Administrator	Simcocks Trust Limited 1st Floor, 28 Victoria Street Douglas Isle of Man IM1 2LE
CREST Service Provider	Computershare Investor Services (Channel Islands) Limited Ordnance House 31 Pier Road St Helier Jersey JE4 8PW

DEFINITIONS

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

“Act”	the Companies Act 1985 (as amended) of England and Wales
“Admission”	the admission of the entire ordinary share capital of the Company, issued and to be issued pursuant to the Placing, to trading on AIM in accordance with the AIM Rules
“Admission Document”	this document compiled in compliance with the POS Regulations and the AIM Rules
“AIM”	the AIM Market of the London Stock Exchange
“AIM Rules”	the rules for companies traded on AIM, as published by the London Stock Exchange
“Board” or “Directors”	the directors of the Company, whose names are set out on page 3 of this document
“Bondholder”	a holder of DSH Bonds
“Combined Code”	the Combined Code and the Principles of Good Governance and Code of Best Practice published by the Committee on Corporate Governance
“Company” or “The Hotel Corporation”	The Hotel Corporation plc, a close-ended company of 1st Floor, 28 Victoria Street, Douglas, Isle of Man, IM1 2LE
“Completion”	completion of the Placing
“Computershare”	Computershare Investor Services (Channel Islands) Limited
“CREST”	the relevant system (as defined in the Regulations) for the paperless settlement of share transfers and the holding of shares in uncertificated form in respect of which CRESTCo Limited is the operator (as defined in the Regulations)
“Dawnay, Day”	Dawnay, Day & Co Limited
“Dawnay, Day Group”	Dawnay, Day and companies connected with Dawnay, Day through common ownership and directorships
“Dawnay Shore Hotels”	Dawnay Shore Hotels plc, registered office Bond Street House, 14 Clifford Street, London W1S 4JU
“DSH Board”	the board of directors for the time being of Dawnay Shore Hotels
“DSH Bonds”	the £60,000,000 (or such higher nominal amount if more than 750 Units are subscribed by investors in Dawnay Shore Hotels) unsecured deep discount bonds December 2004 to June 2009 to be issued by DSH Subsidiary pursuant to the Instrument and supported by Dawnay Shore Hotels
“DSH Directors”	the directors of Dawnay Shore Hotels, whose names appear on page 20 of this document
“DSH Founder Shares”	the founder shares of 0.1p each in the capital of Dawnay Shore Hotels
“DSH Ordinary Shareholders”	the holders of DSH Ordinary Shares
“DSH Ordinary Shares”	the ordinary shares of 5p each in the capital of Dawnay Shore Hotels
“DSH Subsidiary”	DSH (Finance) plc
“EBITDA”	earnings before interest, tax, depreciation and amortisation

“Enlarged Issued Share Capital”	the 22,000,000 Ordinary Shares in issue at Admission
“Escrow Agent”	SJ Berwin
“EU”	the European Union
“Exit”	has the meaning given to it in section 3(b)(i)-(iv) of Part 2C
“Exit Value”	has the meaning given to it in section 3(b) of Part 2C
“Founder Shares”	the founder shares of 0.1p each in the capital of Dawnay Shore Hotels
“Founders”	members of the Dawnay, Day Group and Shore Capital Group
“FSA”	The Financial Services Authority
“FSMA”	the Financial Services and Markets Act 2000
“Gross Asset Value”	has the meaning given in section 3(d) of Part 2C
“Group”	Dawnay Shore Hotels and its subsidiaries
“Instrument”	the deep discount bond instrument to be entered into by the DSH Subsidiary constituting the DSH Bonds
“Intra-Group Loan”	the loan from the DSH Subsidiary to Dawnay Shore Hotels which is further described in paragraph 5(g) of Part 2C
“Investor”	a subscriber for DSH Ordinary Shares and/or DSH Bonds
“Investor Commitments”	the sum of all amounts actually paid at any time by an Investor (or their predecessor in title) to Dawnay Shore Hotels and/or the DSH Subsidiary: <ul style="list-style-type: none"> (a) in subscribing for DSH Ordinary Shares; and (b) in making loans (which shall include but not be limited to subscribing for DSH Bonds)
“Investor Returns”	cash receipts of an Investor in respect of the Investor Commitments including without limitation: <ul style="list-style-type: none"> (a) any redemptions or repurchases of DSH Ordinary Shares; (b) any dividends or distributions received on DSH Ordinary Shares; (c) the proceeds of sale or redemption or repurchase or repayment of any DSH Bonds disposed of or redeemed or repurchased or repaid (computed, where relevant to loans to be sold or redeemed or repurchased or repaid on an Exit, on the basis that the Exit has just completed); and (d) the amount of any Exit Value attributable to the Investor (computed where relevant to any Exit on the basis that the event triggering the Exit has completed); but excluding any arms length fees, commissions or other like sums received by the Investor
“IOM Act”	the Companies Acts 1931 – 1993 (as amended) of the Isle of Man

“Listing”	a successful application being made in relation to all or any of the DSH Ordinary Shares for admission to listing to the United Kingdom Listing Authority and admission to trading on the London Stock Exchange or admission to trading on AIM or a successful application being made to any other recognised investment exchange or overseas investments exchange (as such expressions are defined in FSMA) for all or any of the DSH Ordinary Shares to be admitted to trading on such exchange
“London Stock Exchange”	London Stock Exchange plc
“OECD”	Organisation of Economic Cooperation and Development
“Official List”	the Official List of the UKLA
“Operating Board”	Michael Purtill, Ian Goulding and David Taylor of Dawnay Shore Hotels
“Ordinary Shares”	ordinary shares of 5p each in the Company
“Paramount”	Paramount Hotels Group Limited
“Paramount Group”	Paramount and its subsidiaries
“Placees”	each of the persons to whom Placing Shares are issued pursuant to the Placing
“Placing”	the placing of 22,000,000 Ordinary Shares by Shore Capital Stockbrokers Limited at £1 per share as set out in this document
“Placing Agreement”	the agreement dated 8 July 2004 between the Company, Shore Capital, Shore Capital Stockbrokers Limited and the Directors described in paragraph 4 of Part 5
“Placing Price”	£1 per Ordinary Share
“Placing Shares”	the 22,000,000 Ordinary Shares which are to be issued pursuant to the Placing
“POS Regulations”	the Public Offers of Securities Regulations 1995, as amended
“Prohibited Territories”	the United States, Australia, Canada and Japan and their respective territories and possessions
“Regulations”	the Transfer of Securities Regulations 1996 (Isle of Man)
“REIT”	a real estate investment trust or property investment fund pursuant to legislation or regulations enacted or introduced after the date of this document
“Shore Capital”	Shore Capital and Corporate Limited
“Shore Capital Group”	Shore Capital Group plc or, where the context demands, members of its group of companies
“Target Groups” or “Target Group”	together, Paramount and the hotel group comprising the second prospective acquisition described in Part 2A or either of these as the context requires
“Tynwald”	the Isle of Man Parliament
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UKLA”	The UK Listing Authority, being the FSA acting in its capacity as the competent authority for the purposes of the Financial Services and Markets Act 2000
“Undertaking”	the undertaking relating to the DSH Bonds to be granted by Dawnay Shore Hotels described in paragraph 4(j) of Part 2C
“Units”	has the meaning given to it in section 2 of Part 2C

PLACING STATISTICS

Number of Placing Shares	22,000,000
Placing Price per Placing Share	£1
Number of Ordinary Shares in issue following the Placing	22,000,000
Market capitalisation at the Placing Price	£22,000,000

EXPECTED TIMETABLE

Publication date of Prospectus	9 July 2004
Admission effective and dealings expected to commence	12 July 2004
Subscription for Units in Dawnay Shore Hotels	12 July 2004
Completion of the purchase of Paramount by Dawnay Shore Hotels	12 July 2004
CREST stock accounts credited (as applicable)	12 July 2004
Share certificates in respect of the Placing Shares despatched by	14 July 2004

PART 1

INFORMATION ON THE COMPANY

1. Introduction and strategy

The Hotel Corporation is a new company, registered in the Isle of Man, which has been established to invest in businesses within the hotels sector in the UK.

The Company's strategy is to create value for shareholders through investing in the four-star hotels sector in the UK with a particular focus on provincial hotels.

The Directors will seek to invest in businesses in the UK hotels sector subject to its aggregate shareholding in any one business not exceeding 49.9 per cent. In the event that the Company's interest in any one business is less than 50 per cent., the Directors do not intend to invest further in such business where its resulting shareholding increases and where it may trigger any obligation, in respect of the making of an offer, arising under Rule 9 of the City Code on Takeovers and Mergers.

The purpose of the Placing is to provide the Company with the necessary funds to implement its strategy.

2. Opportunity

The opportunity has arisen to invest in a portfolio of regional UK hotels, through Dawnay Shore Hotels, which the Directors believe could generate significant investment returns over a five year period for shareholders.

Dawnay Shore Hotels has reached agreement to purchase Paramount which has a portfolio comprising four-star UK provincial hotels as well as a strong management team and is in discussions to acquire a further portfolio of similar hotels which, together, would have 25 to 30 hotels with between about 50 and 200 rooms per hotel. The consideration for the acquisition of the two businesses by Dawnay Shore Hotels amounts to a combined cost of approximately £380 million to be funded by a combination of equity and debt finance. Dawnay Shore Hotels has secured £305 million of senior debt and is raising £75 million of equity finance in total. Of the equity finance for the purchase of Paramount, the majority is being raised through a placing with private equity investors and £22 million through the Company.

Dawnay Shore Hotels is proposing to issue up to 800 Units, each comprising DSH Ordinary Shares with a subscription cost of £50,000 and DSH Bonds at a subscription cost of £50,000 as further described in section 2 of Part 2C. The Company is intending to subscribe for up to 217 Units.

Dawnay Shore Hotels is expected to generate strong net cashflow from the operations of Paramount and of the further portfolio which should enable substantial distributions to be made to its investors during the planned five year period of investment. At the end of this period (or earlier), a number of possibilities will be explored by the directors of Dawnay Shore Hotels for exit including a flotation, the transfer of the properties into a real estate investment trust and a trade sale.

3. Investment and realisation

Following completion of the Placing and Admission and effective completion of the acquisition of Paramount by Dawnay Shore Hotels, the Directors intend to invest £21.7 million, net of expenses (including VAT) of £145,000 and provision for working capital of £155,000, through the subscription by the Company for 217 Units in Dawnay Shore Hotels representing an interest of not greater than 48.3 per cent. in Dawnay Shore Hotels. The DSH Directors will only issue the Units in the event that Dawnay Shore Hotels has satisfied all the conditions for completion of the acquisition of Paramount save for Admission and payment of funds.

As a result of the planned five year investment period of Dawnay Shore Hotels, the Directors intend to put proposals for an orderly realisation of the assets of the Company to shareholders in general meeting, at the latest in 2009.

4. The Placing and Admission

The Company requires funds to enable it to pursue its strategy of investing in opportunities within the UK hotels sector, in particular to invest in Dawnay Shore Hotels. The Directors believe that there could be significant returns to investors through an investment in the Company in order to participate in the acquisitions proposed by Dawnay Shore Hotels.

The Placing is being made to provide working capital and funds for the strategy set out above. A total of 22,000,000 new Ordinary Shares are being conditionally placed by Shore Capital Stockbrokers Limited at £1 per share as agent for the Company with institutional investors. The Placing Shares will rank *pari passu* with the existing Ordinary Shares. The Placing is conditional on the Company receiving the proceeds in respect of the Placing Shares in full and Admission taking place on or before 12 July 2004 (or such later date as the Company and Shore Capital may agree, but in any event no later than 31 July 2004). Dealings in the Ordinary Shares on AIM are expected to commence on 12 July 2004.

The Placing will raise £22 million before expenses and the net cash proceeds, after deduction of expenses (including VAT) and provision for working capital amounting to, in aggregate, £300,000, are estimated at approximately £21.7 million.

The Directors intend to subscribe £130,000 for 130,000 Placing Shares under the terms of the Placing and will be subject to the lock-in provisions specified in paragraph 4(a) of Part 5.

It is expected that certificates in respect of the Placing Shares subscribed under the Placing will be despatched by post no later than 14 July 2004. Pending despatch of definitive share certificates, Computershare will certify instruments of transfer against the register. It is expected that CREST accounts will be credited on 12 July 2004, where applicable.

Further information on the Placing Agreement is given in section 4 of Part 5 of this document.

5. Directors

Brief biographical details of the Directors are as follows:

Barclay Douglas CA LLB, Chairman (age 48)

Barclay qualified as a chartered accountant with Arthur Andersen after gaining a degree in Scottish Law. He has spent much of his career in private equity including four years with Murray Johnstone, latterly running the London office. He was a principal in the purchase of Sock Shop from receivership and as finance director assisted in restoring it to profit prior to a sale in 1994. He then joined the private equity division of Mercury Asset Management ('MAM') as a director where he spent six years. He has served on the boards of several public and private companies including The Britt Allcroft Company PLC and Luminar PLC. Since 2000, Barclay has been a professional non executive director and is currently a non executive director of three public companies, including Shore Capital Group, and one private company.

Donald Adamson MA MSI (age 45)

Donald was a director from 1990 and, subsequently, co-owner of Graham Investment Managers Limited which he helped establish as the second largest independently-owned Channel Islands fund manager with around £250 million under management which was sold to Aberdeen Asset Management plc in March 1999. Donald established his own specialist offshore consultancy in 1989, Research & Consulting Associates Limited, and has been involved in the securities industry since 1980. He acts as a director or chairman of a number of listed and privately-held investment companies, including Lindsell Train Investment Trust plc, Invesco Leveraged High Yield Fund Ltd, Alternative Investment Strategies Ltd, Equity Partnership Investment Company Ltd and EPIC Reconstruction plc.

Ita McArdle LLB (age 39)

Ita qualified as a Manx Advocate in 1995 and became a partner of Simcocks Advocates in 1996. She practices in corporate commercial law, financial services, trust, internet and intellectual property law for both private and corporate clients. She sits on the boards of a number of collective

investment schemes and also of private companies in conjunction with clients. Ita is a director of NGT Insurance Company (Isle of Man) Limited and Holiday Break Insurance Company Limited. She is a member of the Northern Irish Law Society, English Law Society, Manx Law Society and the International Bar Association. Ms McArdle resides in the Isle of Man.

Derek Short FCIB MSI FinstD (age 61)

Derek has had a successful career within financial services, latterly as managing director and owner of English and Continental Trust Company Limited, a company engaged in banking, company and trust management services based in Jersey, which was sold to Citco Group in 1999. Previously, he was managing director of Hambros Bank Jersey Limited, a director of Hambros Bank Gibraltar and Hambros Channel Islands Trust Corporation Limited until December 1987 and then managing director of Trident Trust Company Jersey Limited and Trident Trust Company IOM Limited before founding English and Continental Trust Company Limited in 1989.

Further details of the Directors, together with details of their service arrangements are set out in paragraph 3 of Part 5 below.

6. Corporate governance and administration

The Directors acknowledge the importance of the guidelines set out in the Combined Code. The Directors intend to comply with the Combined Code, so far as is practicable given the Company's size and the constitution of the Board. The Directors will review the structure of the Board following the commencement of the Company's investment strategy.

The Company has adopted formally the Model Code governing Directors' share dealings and will take proper steps to ensure compliance by the Directors.

The Board will hold at least four meetings annually. The Board will be responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure and investments. The Board intends to establish audit and remuneration committees following the commencement of its investment strategy.

Accounting, administration and company secretarial services will be provided to the Company by Simcocks Trust Limited.

7. Dividend policy

The Company has not yet commenced trading and it is therefore inappropriate to make a forecast of the likely level of any future dividends. However, the Directors intend to commence the biannual payment of dividends when it becomes commercially prudent so to do and to pursue a progressive dividend policy in line with earnings growth, subject to the availability of distributable reserves and the need to retain funds to finance the requirements of the Company.

8. CREST

The Company's Memorandum and Articles of Association are consistent with the transfer of shares in dematerialised form in CREST under the Regulations and the consent of CRESTCo Limited has been sought. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if relevant shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

9. Further information and risk factors

Your attention is drawn to the information set out in this document and, in particular, to the information on Dawnay Shore Hotels set out in Part 2 and the risk factors set out in Part 3 of this document.

PART 2A

INFORMATION ON DAWNAY SHORE HOTELS

Introduction

Dawnay Shore Hotels has been established by Dawnay, Day and Shore Capital Group as a new holding company to acquire two well-established groups of primarily four star British hotels. Each of these groups is a sizeable operation in its own right and together they would become one of Britain's leading chains in this sector of the market.

The attraction of the acquisitions is that they represent strong property-backed businesses generating substantial cash flow with the potential for growth, both from the benefits of combining the two businesses and from a favourable external environment. One of the acquisitions, Paramount, has a strong entrepreneurial hotel management team able also to act as group management for other portfolios. It is intended that they would manage the other Target Group, which is being sold by owner/managers who, it is understood, are retiring from the industry. The strong and growing net cash flow from the hotels is expected to support an acquisition funded 80 per cent. by external (senior) debt.

The objective of Dawnay Shore Hotels is to secure these enhanced returns for Investors. Dawnay, Day has agreed terms in principle for the acquisition of these two hotel groups for a combined cost of approximately £380 million (including purchase costs), being approximately £220 million for Paramount and £160 million for the second group. Shore Capital and Dawnay, Day Group are now raising investment finance to fund these acquisitions in conjunction with the bank debt being arranged. The acquisition of Paramount is further advanced than that of the second group and is therefore likely to occur sooner. The DSH Directors envisage Dawnay Shore Hotels making other complementary acquisitions in the sector whether or not the second acquisition proceeds.

Following its acquisition by Dawnay Shore Hotels, Paramount will be restructured, with a new management company, Dawnay, Day Hotel Management Limited, taking over the operational management of the hotels. This hotel management will also continue to manage three other differently branded hotels currently controlled by the principal vendor of Paramount, Alchemy Partners. This hotel management company will have a medium term contract with Dawnay Shore Hotels to oversee the running of the Group's hotels. The board of directors of Dawnay Shore Hotels will be responsible for the strategic direction and overall management of the Group, drawing upon the property and financial management skills of the Dawnay, Day Group and Shore Capital Group.

The intention is to integrate the management of the two hotel groups and to import best practice from each to the other. The directors of Dawnay Shore Hotels believe that there is also an opportunity to exploit the property potential of the groups, each of which is a substantial landowner. The opportunities arise both from expanding the hotel and leisure facilities at several of the units and from exploiting alternative use value of non-core property. These measures should offer the prospect of improved hotel efficiencies/profitability and capital gain from land disposals. There may also be scope for acquisitions to strengthen the Group's portfolio further.

In addition, both Dawnay, Day Group and Shore Capital Group consider the acquisitions well-timed in relation to medium-term prospects. Hotels in the locations and class bracket of those owned by the Target Groups tend to benefit strongly from economic recovery as this increases premium business travel/conference income, which enables higher yield per room and hence higher profitability. Independent forecasts also support the view that customer spending on these types of hotels is likely to grow in real terms over the next few years. As a result of the long lead times to identify sites and take them through the planning system, such growth is likely to boost the profitability of existing operators rather than attract significant opening of new hotels.

Thus the acquisitions of Paramount and the other Target Group offer the opportunity to acquire two strong chains, improve their profitability and benefit from cyclical upturn, and create a larger, more profitable business. The strong net cashflow expected from the operations should enable substantial distributions to investors during the planned five year period of investment. It is envisaged that a number of possibilities for exit will be explored, including:

- flotation of Dawnay Shore Hotels or a derivative vehicle. The much diminished number of quoted hotel groups and the strong fundamentals expected from the business should make it an attractive candidate for public listing;
- transfer of the properties into a real estate investment trust. As the structure/legislation for the new vehicle is currently subject to public consultation, it is impossible to be specific as to whether or how this option might apply. However, it is clear that, if possible, the strong net cashflow should offer attractions for REIT investors; and
- sale of the Group in its entirety to another hotel group or to a private equity buyer. The illustrative financial projections of returns over the five years indicate strong returns and potential investors should refer in this respect to the illustrative financial projections set out in this Part 2A.

Paramount

Paramount was formed by Michael Purtil (managing director), an experienced hotel operator, and Ian Goulding (finance director) with venture capital backing in July 1994. They initially purchased four hotels as the core of a new hotel group. Paramount has since grown into a substantial chain which now owns thirteen properties throughout Britain, including such prestigious hotels as the Carlton Hotel in Edinburgh and the Oxford Hotel in Oxford.

Paramount's strategy throughout its ten years has been to build a group of high quality hotels with a consistency of themes:

- consistency of product and guest service ensuring a high level of guest retention both at the hotel and group level;
- all hotels are graded four star, with the exception of the Imperial Hotel Torquay which is graded five star;
- each property was, at the time of acquisition by Paramount, a recovery opportunity through a mixture of capital expenditure, exploiting the property opportunities on site, redirection of sales and marketing activities and strengthening of local management;
- each hotel has a minimum of approximately 90 bedrooms, giving each hotel critical mass, allowing it to benefit from economies of scale with management on a day-to-day basis by its own local team with minimal assistance from head office;
- each hotel has significant conference and banqueting facilities to allow focus on the higher margin events/conference market; and
- each hotel should be able to attract a diverse mix and therefore maximise trading seven days a week.

History of Paramount

Schroder Ventures and Midland Bank provided the initial funding for the creation of Paramount but Schroder Ventures sold their interest in July 1997 to a Malaysian group which, following the Far East economic collapse, sold it to Alchemy Partners in June 1998.

Paramount initially acquired Shrigley Hall Hotel, the Angel Hotel, the Palace Hotel and the Prince of Wales Hotel, Southport (since sold) in 1994 and, subsequently, the Cheltenham Park Hotel in 1995. Once Alchemy Partners' involvement began, Paramount expanded further by acquisition.

The following chronology sets out its subsequent evolution:

Date	Event
July 1997	Schroder Ventures sold their shares in Paramount to ASB plc, a company quoted on the Kuala Lumpur stock exchange.
June 1998	Alchemy Partners purchased Paramount from ASB plc and also acquired the Imperial Hotel, Blackpool, the Majestic Hotel and Imperial Hotel, Torquay – all from Granada.
March 1999	Paramount acquired the Old Ship Hotel.
September 1999	Paramount acquired the publicly quoted Scottish Highland Hotels plc, de-listed it and integrated it within Paramount with debt provided by a syndicate of banks. Assets included the Marine Hotel, Redworth Hall Hotel, the Stirling Highland Hotel and the Carlton Hotel.
December 1999	The various loans within Paramount were refinanced into a single debt package covering the entire portfolio.
February 2000	Paramount sold Buchanan Arms, a non-core hotel acquired as part of the Scottish Highland Portfolio.
July 2000	Paramount acquired the Oxford Hotel.
July 2001	Paramount sold the Prince of Wales Hotel which had reached maturity.
August 2001	Paramount sold Hellaby Hall Hotel, a non-core hotel acquired as part of the Scottish Highland portfolio.
June 2003	Paramount sold the Old Waverley Hotel, a non-core hotel acquired as part of the Scottish Highland portfolio.

Following these acquisitions, Paramount also undertook a heavy capital expenditure programme to upgrade its hotels. Since 1998, over £49 million has been spent on the hotels themselves and a further £5 million on group IT systems and head office investments.

Paramount in 2004

As a result of these investments, Paramount has become a well established UK hotel group with strong growth potential and a proven management team. Its portfolio provides a broad geographic distribution of mostly freehold assets and is now a well balanced hotel portfolio, with a good mix of city centre, conference and resort product serving primarily conference and leisure segments. Paramount has no hotels in London and no single asset dominates the trading performance.

In general the hotels have striking and attractive architecture, which is important for the marketing of Paramount's conference and leisure facilities.

The table below describes Paramount's hotel portfolio:

<i>Location</i>	<i>Hotel</i>	<i>No of rooms</i>	<i>Tenure</i>	<i>Maximum conference facilities (pax)</i>	<i>Year acquired</i>	<i>Profitability when acquired £'000</i>	<i>2003 profitability £'000</i>	<i>Compound growth since acquisition (CAAG)</i>	<i>Historic¹ capex spend £'000</i>
Blackpool	Imperial Hotel	181	Freehold	1,540	1998	1,377	2,393	11.7%	2,881
Brighton	Old Ship Hotel	152	Freehold	659	1999	386	1,914	37.7%	3,946
Buxton	Palace Hotel	122	Freehold	695	1994	590	1,351	9.6%	2,529
Cardiff	Angel Hotel	102	Freehold	600	1994	300	1,539	19.9%	3,637
Cheltenham	Cheltenham Park Hotel	144	Freehold	604	1995	561	1,701	13.1%	2,922
Cheshire	Shrigley Hall Hotel	150	Freehold	784	1994	900	2,250	10.7%	4,463
Co Durham	Redworth Hall Hotel	100	Freehold	1,085	1999	1,186	1,801	11.0%	2,824
Edinburgh	Carlton Hotel	189	Heritable Interest	660	1999	2,404	2,644	2.4%	9,415
Harrogate	Majestic Hotel	156	Freehold	1,655	1998	2,082	3,409	10.4%	2,143
Oxford	Oxford Hotel ²	168	Leasehold (Expiring 2062)	790	2000	2,120	1,733	N/A	13,830
Stirling	Stirling Highland Hotel	96	Leasehold (Expiring 2115)	350	1999	953	1,085	3.3%	1,154
Torquay	Imperial Hotel	153	Freehold	710	1998	1,003	2,184	16.8%	2,076
Troon	Marine Hotel	90	Freehold	375	1999	1,142	1,221	1.7%	2,964
TOTAL		1,803		10,507		15,004	25,225		54,784

¹ Cumulative capital expenditure to 31 December 2003 on each hotel since its acquisition by Paramount.

² Re-launched in 2003 following a 2½ year refurbishment.

Source: Paramount Management

Paramount's market position

Paramount's properties are distinctive assets and many properties, such as the Carlton Hotel in Edinburgh, the Angel Hotel in Cardiff and the Majestic Hotel in Harrogate, have a historical significance. Their strong market recognition has assisted in the re-marketing phase of each hotel.

The hotels trade on their individual names, which the DSH Board believes are well recognised in both local and national markets. The Paramount umbrella brand gives the market assurance that the hotels will meet a minimum threshold of quality and service. This quality is particularly important in the conference and leisure markets. The management ensures that the standards of service across the group are maintained, which is supported by group training manuals and standard operating procedures.

Whilst Paramount has invested heavily in improving the facilities and services of the portfolio, there remains potential for further growth through continued refurbishment of bedrooms and minor re-planning of common areas in certain of the hotels, as well as from the current hardening in the market.

Its management has also identified eleven separate expansion projects. In 2003, it estimated that the seven main projects, if all realised, would add an extra 271 bedrooms and generate incremental gross revenue of £5.8 million and operating profit of some £3.4 million, at a capital cost of £15.6 million.

Historical financial performance

Paramount has achieved growth in revenue per available room of over 14 per cent. from 2000, which the DSH Board believes to be as a result of the balance of its portfolio, its product offering, positioning within a resilient market, and sales and distribution network. This compared favourably to the 3.1 per cent. decrease experienced by the total UK provincial hotel market for the same period (source: PKF). Operating profits of Paramount's hotels have grown by over 7.5 per cent. per annum in the period 1998 to 2003.

Strong growth prospects

The directors of Dawnay Shore Hotels believe that there is a significant upside in the portfolio based on the attractiveness of the assets in their markets, particularly through average room rate growth. There is also a strong potential to grow revenue and operating profits as a result of the significant investment of £23.2 million in the Oxford Hotel and the Carlton Hotel. Both hotels were officially re-launched during 2003 following completion of these works.

The Marine Hotel, Troon should also benefit from improved trading performance following completion of the current refurbishment programme. The 2004 British Open Golf Championship is being held in Troon and the Marine Hotel will be its headquarters hotel and a major beneficiary. This will greatly assist the repositioning of the hotel in the market.

Financial and operational management

Paramount is led at group and unit level by a proactive management team of hotel professionals, who will remain strongly incentivised to perform. It has focused on developing and improving financial accounting systems, with efficient flow of information from the individual units to head office to facilitate cost management and thus to strengthen group cash flow.

Significant investment in IT and marketing systems

Paramount has also spent over £2 million over the last three years on the development of IT systems including hardware, network infrastructure and software systems, which can assist future profit growth. The Paramount Leisurebreak Club has over 24,000 members who are directly targeted and provide an excellent base of future leisure business.

Leisure clubs

Many of the hotels have within them a Bodysense health and leisure club operated by Paramount. These clubs have an emphasis on spa, health and beauty in contrast to traditional gymnasiums or leisure clubs. Common facilities at each hotel include:

- Swimming pool
- Spa
- Sauna
- Steam room
- Beauty salon
- Solarium
- Gym and, in some instances, tennis courts

Paramount currently has a total non-guest club membership in excess of 9,300 with the Cheltenham Park Hotel having the largest membership of any single hotel with 1,400. The average annual fee is approximately £350. The Bodysense health and leisure clubs combined contribute around 6.3 per cent. of total hotel operating profits.

Sales and marketing

Paramount's hotels connect to the Global Distribution System (Galileo, Sabre, Worldspan and Amadeus) (GDS) through VIP international, a GDS representation company based in Calgary, Canada. A single contract is in place for all of Paramount's hotels, on a rolling 12-month basis. On-line bookings can be made from the Paramount website and the on-line booking site of VIP International, Book-A-Rez.

Paramount also runs a central reservations office in its headquarters in Leeds. The function of the department is to book leisure reservations directly into the hotels either from brochures such as the Short Break Brochure, or as a result of national marketing activity, such as adverts in the weekend press.

Paramount's website

Paramount's web presence provides a well-designed and cost-effective platform for sales, marketing and distribution opportunities through the following domain names:

www.paramount-hotels.co.uk

www.scottishhighlandhotels.co.uk

www.paramount-hotels.com

www.paramounthotels.co.uk

The website averages approximately 6,000 visitors and 13,000 hits per month. In 2003, the website enabled the sale of 4,128 room nights and generated revenues of £482,000. This compares to the same period in 2002, when website bookings generated 3,044 room nights and revenues of £398,000, a revenue growth of 21 per cent.

E-mail and database marketing

Addresses are captured from the website when visitors complete the form to download a brochure or provide feedback. At the end of May 2004, there were 3,900 names on the e-mail database. This enables Paramount to send out e-mails promoting late availability and special offers, and are sent on average once per month to the persons listed on the database. The most successful e-mail generated revenue of £9,000 and 126 room nights.

The databases available to Paramount include:

Held centrally

- The LeisureBreak Club – circa 24,000 names
- Portia (Central Reservations bookers) – over 100,000 names
- Delphi (Events)

At hotel level (total):

- Leisure Clubs – circa 9,300 names
- Seasonal guests (Christmas) – circa 3,000 names
- Protel – Past guests

Sales organisation

The sales organisation has been established to focus on the key markets for Paramount, build a platform of long term pre-contracted business, diminish the impact of the short term volatility of the marketplace, and ensure that clear accountability and measurement processes are in place. There is a strong emphasis on providing solutions to clients and developing business for Paramount.

Marketing principally targets the conference and leisure markets, whilst the individual hotels target local corporate and banqueting business. The Company's sales team has been organised to target regional sales, sales to booking agents, leisure sales and group events.

Paramount's management

Paramount's executive management is highly experienced in the UK hotel market; brief biographical details are set out under 'Hotel Management' below.

Paramount has a strong and experienced head office team providing a wide range of managerial controls, services and support to the operating units.

Hotel acquisitions, operations and refurbishments are undertaken and supervised from the head office in Leeds, where key executives, the managing director, the sales director and the finance director are assisted by marketing, operations, group finance, IT and refurbishment teams.

The individual hotel managers are in charge of their operations, with regular supervision from head office. The management infrastructure adopted by Paramount is one of decentralised responsibility. The general managers recruited within the group are employed as business managers rather than simply as hospitality providers. The salaries paid are slightly higher than the norm for the industry, but this approach ensures that Paramount recruits and retains better quality candidates. General managers in the group have a long service record, relative to key competitors, and five are internal promotions from deputy positions.

The hotel management team is operated with a complement of financial controller, personnel manager, operations/deputy manager and a business development manager. Together with the general manager they undertake day-to-day management of the business, working within the confines of a budget and reporting on a weekly basis a three-month rolling forecast.

Employees

Paramount employs approximately 1,900 staff of which some 800 are seasonal employees.

Financial controls and operating procedures

All hotels follow the Paramount head office financial and operating procedures which include: capital expenditure approval and authorisation, staff hiring and recruitment, staff remuneration, cash handling, procurement and purchasing.

Whilst Paramount focuses on sales generation, equal emphasis is placed on control of costs and expenditure at unit level to retain a focus on operating profitability at each unit.

One area of emphasis is procurement economies, which have brought significant savings over the last four years of operation. Each department is measured on the level of retrospective discounts it obtains, which are determined by the difference between the existing price and the newly negotiated price. Retrospective discounts have risen from £600,000 in 1999 to nearly £1.6 million in 2003.

Second prospective acquisition

The second prospective acquisition is a well-established family-owned hotel group operating principally four star and a few three star hotels throughout England. The average size of its hotels is smaller than a Paramount hotel in terms of numbers of rooms, but most of the hotels have extensive leisure facilities including four which have golf courses. The group has won a number of awards for its quality.

The controlling family acquired its first hotel in the group many years ago, but the remainder of the hotels were purchased between 1989 and 2003 (other than a new hotel now in the final stages of construction). The family currently own a controlling interest in the company, but it is run by an external chairman and a managing director, who is also a shareholder and who, it is understood, will retire after the sale. This group's policy after acquiring its properties was to upgrade and refurbish the property thoroughly before re-launching it under its banner.

Dawnay, Day Structured Finance Limited has agreed heads of terms with its owners for the purchase of this group and has obtained a period of exclusivity in which to complete the purchase. The intention is to integrate the central management of the group into that of Paramount and for the senior executive team of Paramount to run both groups.

Characteristics of the second prospective acquisition

As in the case of Paramount, this group's hotels are (with a few exceptions) four star hotels. Some of the hotels are country house hotels with substantial land and leisure facilities whilst others are similar to the typical Paramount hotel.

In total the group owns 15 hotels, eleven freeholds and four of which are leasehold. Over the four years from 1 April 2000 to 31 March 2004, this group has spent nearly £23 million in capital expenditure on these hotels, *excluding a new hotel which has been sold and leased back*. All of the hotels have conference facilities. Eleven of the hotels have swimming pools, twelve have saunas, all but one have gyms and nine have tennis courts.

On average the achieved room rate for this group is slightly higher than for Paramount. However, in recent times, the average occupancy of its hotels has been lower than Paramount's.

Economies of scale

Dawnay, Day Group and Paramount's senior management believe that there is considerable scope for improving the performance of this group under Paramount's management:

- Paramount has, as discussed above, spent substantial sums developing sophisticated central reservation and yield management systems. These have a number of benefits including possibilities to optimise block booking timings and rates to avoid low occupancy in the periods immediately before and after such bookings; cross-selling of hotel capacity for events (when a potential customer approaches the group with one hotel in mind, they may be willing to accept another); economies in the sales function because it can be centralised and easier direct supervision by senior management;
- various management functions undertaken at hotel level in a smaller group (such as human resources management) can be undertaken at regional or central level;
- cross-marketing through websites, brochures and direct mail/e-mail; and
- consolidating the central management of the two groups is expected to generate substantial savings.

The UK provincial hotel market

A large fragmented market

The UK is one of Europe's major hotel markets, with annual spending on the sector in 2002 representing more than £10 billion and the hotel and catering sector accounting for more than three per cent. of the UK's GDP. This covers a huge range of hotels by size, type and location, but the largest sector is hotels with less than 50 rooms, which represents 90 per cent. of total market revenue. However, over the last few years the sector which has shown the strongest turnover performance has been hotels with 50-200 rooms, a trend Dawnay, Day Group's hotel specialists expect to continue. In terms of market positioning, the four star and budget sectors of the market have shown and continue to show the strongest growth.

In terms of ownership, the market is fragmented with numerous independent hotels and over 65 public and private companies with significant estates. Branding is playing an increasingly important role in domestically focused as well as internationally focused hotels.

Provincial hotels as a sub-sector

There is a sharp distinction between the fortunes of the provincial hotel market and the London hotel market. London's tourism is much more exposed to international travellers, whether for business or leisure. As a result, it has been significantly affected by a sharp decline in international trips after the September 11 attacks of 2001. As a major international financial centre, it is also much more exposed to cycles in capital markets activity. By contrast, provincial hotels are much more focused on the domestic market and historically their fortunes have been correlated with GDP growth.

Planning constraints

As with so many other aspects of the property market in the UK, the supply of hotels is constrained by the system of granting planning consents for new construction and change of use. In practice, this can make the development of new capacity on new sites a slow and difficult process and hence provides for the growth in value of existing sites, particularly those with expansion potential, as demand grows.

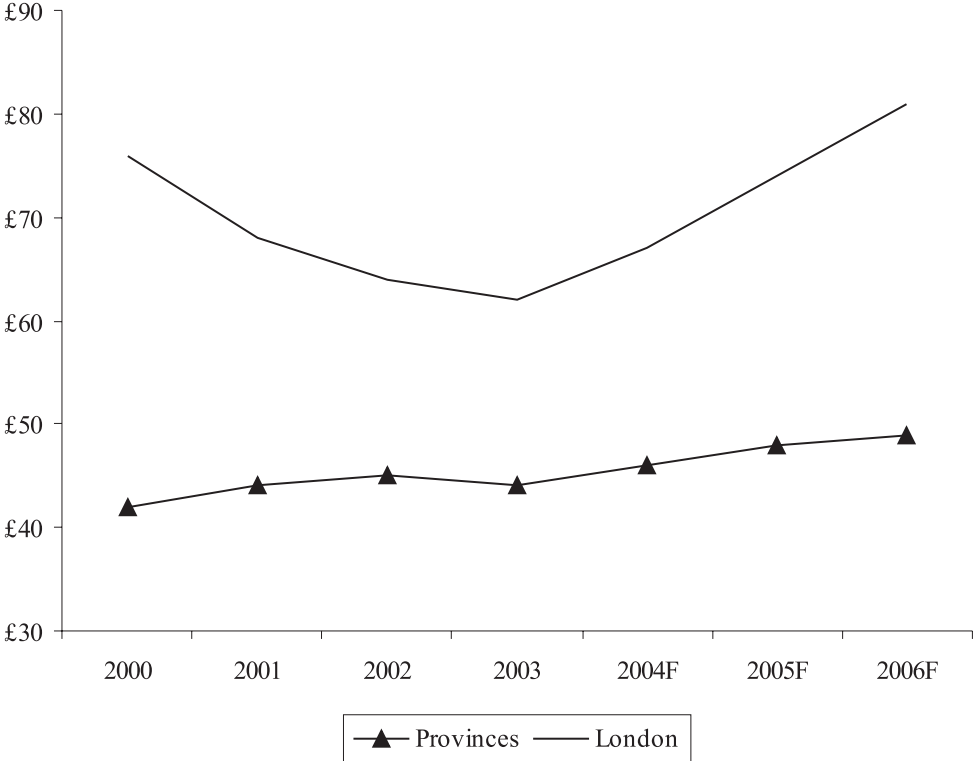
Demand for provincial hotel services

During the period 2000 to 2003, there was a downturn in the hotel market as a whole, but for the reasons discussed above, the provincial market has proved much more resilient than the London market. Room yields for this period rose by four per cent. for provincial hotels, compared to an

18 per cent. decline for London. The provincial hotel market in the UK is now showing signs of recovery with room yields up by 4.9 per cent. in the first quarter of 2004 and by 7.7 per cent. in March (Source: industry commentator TRI Hospitality Consulting).

These trends are illustrated by the figure below:

UK provincial room yields versus London, 2000 – 2006F



Source: TRI Hospitality Consulting

The DSH Directors believe that one of the reasons for the relative success of provincial hotels has been a successful attempt by hotel operators to replace corporate customers with leisure travellers – albeit at lower room rates. The directors of Dawnay Shore Hotels believe that the strong demand for leisure travel is an on-going positive trend for UK hoteliers.

Looking forward, the DSH Directors expect the improving economic outlook to be reflected in rising demand by corporate and conference customers. Occupancy levels are unlikely to increase significantly from current levels, given the strength in leisure travel, however the switch in business mix should be reflected in higher room rates. TRI Hospitality Consulting is forecasting compound room yield growth of circa four per cent. per annum between 2004 and 2006 as the economy recovers and business confidence returns.

Current trading in the provincial market appears robust. Within the industry, four-star operators De Vere Group, M&C and Marriott (Whitbread) support this data with recently reported positive room yield growth for early 2004. Furthermore, De Vere Group reported a 6.6 per cent. increase in EBITDA, or 8.4 per cent. on a like-for-like basis, from its four-star UK hotel estate in the six months ended 31 March 2004. Recent statistics from TRI Hospitality Consulting highlighted a 4.9 per cent. increase in provincial UK room yields for the first quarter of 2004.

Directors of Dawnay Shore Hotels

The DSH Board will be responsible for the overall direction of the company, including acquisitions and disposals, financing, major capital expenditure, distributions and realisations of shareholder value. It will also supervise the operational management of the company, which is being delegated to a newly established company, Dawnay, Day Hotel Management Limited, under a five year operating agreement.

The board of directors of Dawnay Shore Hotels is as follows:

David Pantin, Chairman (age 44)

David was, for five years until early in 2004, managing director of Rocco Forte Hotels, a leading luxury hotels group, and was responsible for its luxury hotels in the UK and Eastern Europe. He began his career in hotel management with Trusthouse Forte and was personal assistant to the group managing director at an early age. After various senior roles in Trusthouse Forte including managing director of the Café Royal and regional vice president for the Caribbean, he became a member of the board of Hilton UK. He then joined Hutchison Whampoa as a senior vice president responsible for the pre-opening and management of a US\$450 million integrated resort development in the Bahamas. He holds an MSc in Hospitality Management and his thesis won him the Roger Bennett Outstanding Global Master award from IMCA. Since leaving Rocco Forte Hotels, he has formed his own hotel management company, Unique Hotels of the World, and secured management contracts in Russia and Spain.

Peter Klimt (age 58)

Peter is the Chief Executive of Dawnay, Day International Limited, Chairman of Dawnay, Day Property Investment Limited and Dawnay, Day Structured Finance Limited, and one of the two principals of the Dawnay, Day Group. Having qualified as a solicitor in 1971, he then worked as a principal in the property sector until 1975. Whilst maintaining an interest in private and commercial property investment, Peter also joined a leading City law firm, DJ Freeman & Co, where he became a partner. After entering a joint venture in property investment with Guy Naggar, he joined the board of Dawnay, Day International Limited in 1992 and has developed the group's property investment division.

Guy Naggar (age 63)

The other of the two principals of Dawnay, Day, Guy is the Chairman of Dawnay, Day International Limited. He originally trained as a merchant banker with Samuel Montagu & Co and later became Deputy Chairman of Charterhouse Bank. He has guided the expansion of the Dawnay, Day Group and spearheaded its specialisation in corporate finance, investment management, property services and other focused financial services. He serves on the investment committee of the Puma Property (D.D.) Fund L.P.

Howard Shore (age 44)

Howard started his career with Grieveson Grant & Co in discretionary fund management and has an MA in Economics from Cambridge University. He is the executive Chairman and founder of Shore Capital Group plc, the listed investment banking group which has divisions providing equity capital market services and running alternative asset class funds. Shore Capital Group received venture finance from The British Land Company PLC in 1987, which remained a strategic shareholder until 1996. He has maintained close ties to the property industry over the last 17 years and serves on the investment committee of the Puma Property (D.D.) Fund L.P.

Hotel management

Portfolio Management Agreement

Dawnay, Day Hotels Limited ("DDHL") has been established as the entity through which Dawnay, Day's hotel management activities will be undertaken. It will be able to draw upon the resources of the Dawnay, Day Group, described below, and its directors include two senior hotel specialists, Colin Campbell and Charles Prew.

DDHL and Shore Capital Limited, a wholly owned subsidiary of Shore Capital Group plc, will both enter into a five year portfolio management agreement with the Company under which each will provide, or procure the provision of, various services to Dawnay Shore Hotels, including the services of its directors (at no separate charge) to sit on the board of Dawnay Shore Hotels, advice in relation to overall strategy of Dawnay Shore Hotels, investor liaison services and advice in relation to the realisation of shareholder value. The terms of the Portfolio Management Agreement are summarised in more detail in paragraph 5 of Part 2C.

Operating Agreement

Dawnay, Day Hotel Management Limited (“DDHML”) is being established as a hotel management company. This company will engage Michael Purtill, Ian Goulding and David Taylor as executive directors and will employ the head office staff of Paramount. As of the Closing Date, DDHML will provide hotel management services to Dawnay Shore Hotels in respect of all hotels then owned and to be acquired by Dawnay Shore Hotels. In addition, it is intended that DDHML will contract to provide hotel management services to three other hotels branded as “Quintessential” which are being retained by Alchemy Partners and possibly to other hotel owners in due course. DDHML will own 77 per cent. of DDHML, the balance of whose shares will be held by Alchemy Partners and the senior executives of Paramount.

The pool of management talent which will be responsible for managing the hotels of Dawnay Shore Hotels will therefore comprise:

Colin Campbell (age 45)

He is a senior hotels executive with over 20 years of experience in the sector. After training as an accountant with Deloitte in Edinburgh and a period in the brewing industry he joined Ladbroke Hotels/Hilton International where he rose to be Director, Corporate Development. He then worked as Director, development finance, for Holiday Inn before joining Baring, Houston and Saunders. He was a member of the team which listed Thistle Hotels and worked on a wide range of mergers and acquisitions, structured financing and equity raising projects in the hotel sector. In 1998 he joined Jarvis Hotels plc as Business Development Director where he spent four years. He then formed his own consultancy and after undertaking a project for the Dawnay, Day Group he joined Dawnay, Day Structured Finance Limited in January 2004.

Charles Prew (age 58)

He is also a senior hotels executive with extensive experience of the sector. He began his career at Grand Metropolitan Hotels where he rose to be Operations Director of its Country Hotels division. He joined Ladbroke Hotels/Hilton Group plc in 1983 as Operations Director and became Deputy Managing Director of Hilton UK before being appointed Chairman of Hilton Hotels (Australia), Vice President of Hilton International and Vice President Sales & Marketing Hilton International (Asia, Pacific, Australia). In 1992 he joined Jarvis Hotels to establish its hotel management contracting division and was appointed to the Board in 1995, subsequently establishing its hospitality management division. In 2003 he joined Hanover International as operations and sales and marketing Director and subsequently became Managing Director.

Michael Purtill (age 53)

Michael co-founded Paramount in July 1994 taking on the role of Managing Director. Throughout his time with Paramount he has overseen the running of the company with particular responsibility for identifying acquisitions and the operational development of the individual hotels. He is a Chartered Accountant who qualified in 1974. In 1984 he co-founded Principal Hotels, a provincial hotel group which at the time of his departure (the group was sold) in 1989 consisted of 22 hotels located in the United Kingdom, Holland and Denmark.

Ian Goulding ACA (age 40)

Ian was the joint founder of Paramount as Finance Director. He has specific responsibility for finance, cash control, IT, legal, purchasing, contracts and leisure clubs, as well as involvement in all hotel acquisitions and four hotel disposals. Prior to joining Paramount, he worked for KPMG, Leeds for nine years, for the first five years in the audit practice. The latter four years were spent working in the corporate finance department, focused on the private equity sector.

David Taylor (age 39)

David joined Paramount in May 2000 as Director of Sales and is responsible for group sales, conference offices and reservations departments. In addition he has also been involved in developing the marketing strategy and the group’s electronic distribution. He began his career in sales in 1986 selling local newspaper advertising and began in hotel sales in 1991 at the London

Metropole and specialising in conference and event sales and subsequently leisure business and aircrew accommodation contracting. He remained with Metropole Hotels after its acquisition by Stakis Hotels and then Hilton Hotels, and held a senior sales role within the Hilton Group.

In addition to these specialist hotels managers, Dawnay Shore Hotels will also be able to draw upon the structured finance and property skills within the Dawnay, Day Group. This team consists of approximately 32 people including highly experienced property management and structural finance professionals. The senior management of this team are:

Paul Rogers Dip Prop Inv FRICS (age 45)

Has spent 25 years in the property sector. Paul formerly worked with Conrad Ritblat and was a partner in Hammond Phillips Property Consultants. Paul has specialised in active management of multi asset portfolios, lettings, sales, refurbishments, development and investment. Paul is joint managing director of Dawnay, Day Structured Finance Limited and a director of Dawnay, Day Property Investments Limited.

Massimo Marcovecchio BSc (Hons), MBA, MRICS, ACIOB, MBENG (age 39)

A Chartered Surveyor and Engineer with 16 years' experience of property investment and finance. Massimo has previously worked within the Corporate Property Finance team of Rotch Property Group, pioneering a number of innovative and leading edge financial engineering techniques. Massimo has lectured in Property Finance and has been a guest speaker at University of Ulster. Massimo is joint managing director of Dawnay, Day Structured Finance Limited.

The Founders

Dawnay, Day

Dawnay, Day & Co., Limited was founded in England in 1928 as an issuing house and is a member of the prestigious London Investment Banking Association. Its two principals, Peter Klimt and Guy Naggar, each has over 30 years' experience in the commercial property and investment businesses. The Dawnay, Day Group currently owns and/or manages approximately 470 UK commercial properties recently estimated to have a gross value of £1.24 billion and a net asset value of £222 million and has completed transactions with a wide variety of institutions and entered into structured property transactions with institutions including Lehman Brothers, Hermes Property Unit Trust, Patron Capital, Barratt Developments and the London Borough of Camden.

In the leisure sector, the Dawnay, Day Group has an investment interest in Paramount Plc, the restaurant group, and Guy Naggar is its Executive Chairman. Paramount Plc acquired Chez Gerard in April 2003 which comprised of a portfolio of 26 restaurants made up of the "Chez Gerard", "Bertorelli", "LiveBait" and "Cafe Fish" brands. Paramount Plc has no connection to or with Paramount.

The initial restructuring of Paramount Plc involved selling five unsuitable outlets, rationalising core property interests, appointing a new management team, investing in many refurbishments, developing new operating systems and re-launching menus and service standards. Interim six month profits before tax (with acquisition adjustments) to December 2003 were up to £1.3 million (£0.4 million – 2002). Like for like sales for the nine-month period to the end of March 2004 were up an estimated 2.8 per cent. The turnaround and stabilisation of the core business now enables a second stage of expansion to be pursued.

Shore Capital

Shore Capital Group plc is an entrepreneurial and successful listed UK investment banking boutique which manages a variety of alternative asset class funds and offers corporate finance, private wealth management and equity capital market services. Shore Capital has developed a strong reputation over nearly 20 years, and has an excellent track record of successful fund management.

As well as the Puma Property (D.D.) Fund L.P. established with the Dawnay, Day Group, Shore Capital Group also runs growth capital and absolute return funds. Puma I, its first growth capital fund, produced a realised internal rate of return from 1996 to 2000 of 76 per cent. per annum. Puma II, its second growth capital fund, was 29.5 per cent. up as at 30 April 2004, having shown strong growth in the current year. Puma Absolute Return Fund, its hedge fund of funds, has achieved an annualised return of 12.5 per cent. in its first year of operation, whilst Shore Capital's managed hedge fund portfolio has achieved 14.0 per cent. per annum over three years.

Track record of Dawnay, Day in commercial property

The track record of the Dawnay, Day Group from investment property was calculated for the purpose of launching the Puma Property (D.D.) Fund L.P. in conjunction with Shore Capital Group. At that time the last year for which audited accounts were available for all of the Dawnay, Day Group's companies was 31 December 2000, at which point its portfolio had a gross value of £350 million and a net worth of some £100 million. Over the 15 years to 31 December 2000, the compounded rate of return on the equity invested in investment properties managed by the Dawnay, Day Group was 50.7 per cent. per annum. This was calculated on the cash flows of all investment property companies controlled by the Dawnay, Day Group (investment property only being held in companies).

Since that date, the portfolios of these companies have continued to show strong returns.

The Puma Property (D.D.) Fund L.P.

In 2002 Shore Capital Group plc and the Dawnay, Day Group established a fund (the "Fund") to invest in UK commercial property, with a target portfolio of holdings across the UK offering reversionary potential as well as a significant yield margin over bank debt with the same term as the Fund. The Fund had its first closing in August 2002 and final closing in February 2003. Since launch the Fund has purchased properties at a cost of £110 million which have been revalued as at 5 April 2004 to £122 million. These purchases have been funded as to 80 per cent. by medium term bank debt. The Fund also generates a significant net income stream for investors which has grown to be over 10 per cent. cash on cash distribution on an annualised basis in respect of the quarter to 5 April 2004. Thus overall the Fund has generated an internal rate of return for its investors to 5 April 2004 of 47.1 per cent. per annum after allowing for all expenses and charges including a provision for founders' carried interest of 20 per cent.

Historical performance of Paramount

Paramount has a year end of 31 December and the following table summarises its profit and loss accounts for 2002 and 2003. These figures are extracted from the audited report and accounts. As is common with companies funded by private equity, Paramount has a high level of debt from bank loans, mezzanine loans, subordinated loan stock and hire purchase agreements. This accounts for the high level of interest payable and similar charges.

The profit and loss account includes the results of the Old Waverley Hotel which was sold during 2003, with a net loss on disposal of £86,000. They also include, for 2003, £466,000 in respect of management charges payable by Quintessential Hotels. As discussed in the next section, Paramount has additional capacity for 2004.

Profit and loss account

	2003 £'000	2002 £'000
Turnover	68,093	64,634
Cost of sales	<u>(9,147)</u>	<u>(8,607)</u>
Gross profit	58,946	56,027
Administrative expenses	<u>(42,270)</u>	<u>(40,822)</u>
Operating profit	16,676	15,205
Loss on sale of fixed assets	(75)	—
Profit on sale of current assets	<u>262</u>	<u>—</u>
	16,863	15,205
Interest receivable and similar income	<u>85</u>	<u>14</u>
Interest payable and similar charges	<u>(13,437)</u>	<u>(13,350)</u>
Profit on ordinary activities before taxation	<u><u>3,511</u></u>	<u><u>1,869</u></u>

Source: audited accounts of Paramount

Illustrative financial projections

Dawnay, Day Structured Finance Limited has prepared financial projections for the combined businesses based upon the historical results of each of them, their budgets and current trading performance. These projections reflect the views of Dawnay, Day Structured Finance Limited and in some respects are more cautious than budgets prepared by the management of the two groups.

The following projections are shown for illustrative purposes only and should not be regarded as forecasts or any form of guarantee. They are based on the principal assumptions listed below.

The projections cover trading years beginning 1 July, whereas Paramount has a 31 December year end and the other group 31 March. Thus the first year for the projections is from 1 July 2004 to 30 June 2005, a period covered in part by the budgets of the two groups.

The projections take into account changes in the profiles of the two groups which Dawnay, Day Structured Finance Limited expects could have a material effect on their performance. These include the opening of new hotels during 2004, the return from extensive refurbishment of several other units and some of the potential changes in capacity or marketability of the hotels.

They also take into account:

- projected economies from the integration of the two groups;
- an assumed improvement in occupancy in the second group as a result of the application of Paramount's yield management systems;

- a compound growth in average rate per room of 4.34 per cent. per annum over the period of the projections, partly reflecting general inflation and partly an expected appreciation in room rates as business expenditure on hotels of this character grows;
- fixed rate term bank borrowings at a weighted average rate of 7.55 per cent., together with an amortisation of principal in accordance with the schedule agreed with the Company's bankers;
- capital expenditure each year on fixtures, fittings and equipment of between four per cent. and five per cent. of turnover;
- the equivalent of 12 per cent. annual coupon on the DSH Bonds;
- hotel management costs in accordance with the proposed contract with Dawnay, Day Hotel Management Limited;
- portfolio management fees of 0.6 per cent. of Gross Asset Value in accordance with the Portfolio Management Agreement;
- a corporation tax rate on projected chargeable income of 30 per cent., with capital allowances based upon brought forward balances together with additional allowances reflecting the projected mixture of capital expenditure;
- 750 Units of £100,000 each being subscribed; and
- aggregate costs of both acquisitions and all other fees and expenses of £382 million.

On the basis of these assumptions, the projections for the combined business are set out in the table below. (These projections are proforma for the first year as they assume that both acquisitions completed on 30 June 2004. In practice, both acquisitions are expected to complete later than this.) The projections are shown for four years as the projections for the fifth year are for nine months only because of the assumed timing of the exit (see below).

Projections for the combined Target Groups on a proforma basis

	2005	Years ending 30 June		
		2006	2007	2008
Turnover (£m)	137.2	146.6	153.8	159.9
Growth (%)	—	6.9%	4.9%	4.0%
EBITDA (£m)	52.2	56.4	59.6	62.4
as % of sales	38.1%	38.4%	38.8%	39.0%
Central overheads ¹ (£m)	(7.6)	(8.2)	(8.6)	(8.8)
FF&E ² (£m)	(6.8)	(7.2)	(7.5)	(7.2)
Cash earnings after capex, before interest and tax (£m)	37.9	40.9	43.6	46.3
Ungeared ROI	9.9%	10.7%	11.4%	12.1%

1. Includes hotel management and incentive fees and central costs.

2. Repairs and maintenance and capital projects, typically around 5 per cent. of sales (FF&E is Fixtures, Fittings and Equipment).

Potential cash flow to investors

	2005	Years ending 30 June		
		2006	2007	2008
EBIT ¹ (£m)	37.9	40.9	43.6	46.3
Bank interest (£m)	(22.9)	(22.5)	(22.1)	(21.5)
Return on DSH Bonds to Investors ² (£m)	(4.5)	(4.5)	(4.5)	(4.5)
Profit before tax (£m)	10.5	13.9	17.0	20.3
Taxation (£m)	(0.5)	(2.0)	(3.2)	(4.4)
Post-tax profits¹ (£m)	10.0	11.9	13.8	15.9
Bank loan amortisation (£m)	(4.5)	(5.8)	(6.7)	(6.6)
Transfer to debt service reserve (£m)	(1.0)	(2.0)	(2.0)	(2.0)
Add back return on DSH Bonds (£m)	4.5	4.5	4.5	4.5
Aggregate cash attributable to shareholders (£m)	9.0	8.6	9.6	11.8
as % of equity and bond investment	12.0%	11.5%	12.8%	15.7%

1. Cash earnings before interest and tax, after capital expenditure, but not including non cash items such as depreciation; cash profit before tax and post tax on the same basis.

2. Based upon a principal sum of £37.5 million and the equivalent of a coupon of 12 per cent. per annum.

On the basis of the above projections, it is possible to calculate potential returns to Investors from subscription for the Units given assumptions about the timing and terms of an exit from the investment.

The acquisition cost can be expressed as a multiple of projected first year's "profit" after tax, i.e. expressed on a cash flow basis using capital expenditure rather than depreciation. For the purposes of the illustrative calculations of returns below, Dawnay, Day Structured Finance Limited has assumed that an exit is achieved close to the end of the fifth year of Dawnay Shore Hotels' life (assumed to occur on 31 March 2009), achieving the same multiple of projected "profit" after tax in that year expressed on the same cash flow basis as for the first year.

These assumptions indicate an internal rate of return for the Investors in the Units, after allowing for all expenses and the carried interest of the Founders, of 29.3 per cent per annum.

It should be stressed that this projected return is an illustration, not an estimate or forecast, and should be interpreted in the context of the risk factors listed in Part 3 of this document.

PART 2B

PRINCIPAL TERMS FOR INVESTMENT IN DAWNAY SHORE HOTELS

The following sets out the principal terms for investment in Dawnay Shore Hotels. These terms will apply equally to the Company and to other Investors.

Dawnay Shore Hotels:	Dawnay Shore Hotels plc is a new company, being a public limited company incorporated in England and Wales.
Opportunity:	To buy two portfolios of mid market hotels generating strong cash flow at a favourable point in the cycle.
Strategy:	Improving performance through a blend of pro-active hotel management and applying property asset management expertise.
Units:	Investments in Dawnay Shore Hotels shall be made in Units of £100,000 each. Each Unit comprises 50,000 DSH Ordinary Shares and £50,000 of DSH Bonds issued by the DSH Subsidiary and supported by Dawnay Shore Hotels.
Funding required:	£75 million from Investors in Units. Dawnay Shore Hotels may accept a maximum of £80 million, although closing may occur upon receiving minimum subscriptions of £45 million.
Minimum investment:	Units in Dawnay Shore Hotels are intended for purchase solely by sophisticated investors. The minimum investment in Dawnay Shore Hotels will be £1,000,000 or such lower amount as may be agreed with Shore Capital.
Financing:	In addition to the subscription monies of Investors paid for Units, the hotel purchases will be funded by senior debt (approximately 80 per cent. of purchase cost).
Investment deadline:	It is anticipated that the date by which applications and cleared funds have been received by Shore Capital, (the "Closing Date") will be on or around 12 July 2004, or such later date (being no later than 31 July 2004) as Shore Capital may decide.
Escrow:	All subscription monies will be held by the Escrow Agent in an interest bearing account pending satisfaction of the conditions precedent (which will include completion, save as to payment of the consideration, of the acquisition of Paramount) to drawdown of the senior debt under the Facility Agreement. Upon receiving notification that such conditions precedent have been satisfied, the Escrow Agent will release to Dawnay Shore Hotels all of the monies subscribed. In the event that the acquisition of neither of the Target Groups has been completed by 31 July 2004 (including as a result of any failure to obtain a senior debt facility), the Escrow Agent will return to each Investor such monies subscribed together with interest thereon.
Sponsor:	Shore Capital (authorised and regulated by The Financial Services Authority), a subsidiary of Shore Capital Group plc, the UK Officially Listed investment bank with a successful track record in alternative asset class investments.

Founding Shareholders:	Starlight Investments Limited, Dawnay, Day Structured Finance Limited and Shore Capital Trading Limited, being members of the Dawnay, Day Group and the Shore Capital Group who have successfully run the Puma Property (DD) Fund together.
Board:	The board of Dawnay Shore Hotels shall comprise David Pantin (Independent Chairman), Peter Klimt, Guy Naggar and Howard Shore.
Management:	A strong hotel executive management team with a track record of performance, combined with Dawnay, Day, a first class team of property, investment (including hotels) and financial specialists with an outstanding track record of investment returns.
Pre-commitments:	<p>Dawnay, Day Structured Finance Limited has agreed to invest (either itself or through a company in the Dawnay, Day Group) £5 million in Dawnay Shore Hotels, on the same terms as other Investors, if the acquisition of Paramount by Dawnay Shore Hotels takes place.</p> <p>Shore Capital has agreed to subscribe (either itself or through a group company) an amount equivalent to 5 per cent. of the funds raised on the Closing Date by Dawnay Shore Hotels (up to a maximum of £3.75 million) on the same terms as other Investors.</p>
Investment horizon:	Aiming to exit within five years from completion of the acquisition or acquisitions, unless within that time frame the Company is transferred into a REIT.
Distributions:	Dawnay Shore Hotels will endeavour to distribute as much of the income produced from its assets as possible on a regular basis during its life while seeking to retain a prudent amount of net income.
Carried Interest:	The Founders will receive a 20 per cent. carried interest subject to Investors first receiving a minimum 8 per cent. per annum return (compounded annually) on their investment. For further details see section 3 of Part 2C of this document.
Portfolio Managers:	Dawnay, Day Hotels Limited and Shore Capital Limited.
Portfolio Management Fees:	<p>Dawnay, Day Hotels Limited and Shore Capital Limited will receive an annual aggregate portfolio management fee equal to 0.6 per cent. of the Gross Asset Value of Dawnay Shore Hotels. The portfolio management fees will be paid quarterly in arrears. The Gross Asset Value will be determined by the auditors of Dawnay Shore Hotels at each financial year-end but shall prior to the first year end be the sum of acquisition costs of hotels from time to time.</p> <p>In addition, Shore Capital will receive a structuring fee equal to 0.5 per cent. of the acquisition cost of all investments made by Dawnay Shore Hotels, of which Shore Capital has agreed to pay to Dawnay, Day half of the net receipt after deducting any third party commission or other payments. Dawnay Shore Hotels will be responsible for its own expenses, for example: audit, legal and administration fees and any expenses relating to its establishment.</p>

Operating Fees and Expenses:	Dawnay Shore Hotels will enter into an operating agreement for the continuing management of the hotels being acquired, the costs of which will be borne by Dawnay Shore Hotels. In addition, Dawnay Shore Hotels will bear normal third party costs incurred in relation to the purchase, sale and ownership of its assets. A fuller summary of the operating agreement is set out in section 5 of Part 2C.
Rights of First Refusal:	Dawnay Shore Hotels will have first refusal on acquisitions of UK mid-market hotel operations which members of the Dawnay, Day Group wish to undertake whilst Dawnay, Day Hotels Limited remains a party to the portfolio management agreement, on the basis further described in section 5 of Part 2C.
Interest on Subscription Monies:	Investors who pay their subscription monies relating to their Units prior to the Closing Date will be entitled to receive interest on those monies up to the Closing Date at the rate prevailing on the escrow account in which such monies are deposited.
Puma Property (D.D.) Fund L.P. Track Record:	47.1 per cent. per annum internal rate of return for investors after all expenses and provision for promoters' carried interest of 20 per cent. calculated to 5 April 2004.
Dawnay, Day Track Record:	50.7 per cent. per annum compounded rate of return on equity invested in commercial property over 15 years up to 31 December 2000.
Transfer:	Investors shall be free to transfer all or some of their DSH Ordinary Shares and DSH Bonds (whether together or separately), subject to the terms respectively of the Articles of Association of Dawnay Shore Hotels and the Instrument.
Over-the-Counter Market:	Shore Capital Stockbrokers Limited has agreed to make an over-the-counter market in DSH Ordinary Shares and DSH Bonds on a matched bargain basis which will be subject to the limited restrictions on transfer referred to in the above paragraph.

PART 2C

ADDITIONAL INFORMATION ON DAWNAY SHORE HOTELS

1. Dawnay Shore Hotels

- (a) On 26 April 2004, Dawnay Shore Hotels was incorporated under the name Lynxgold plc as a public company limited by shares under the UK Act with registered number 5112298. On 4 June 2004 Dawnay Shore Hotels changed its name to its current name.
- (b) Dawnay Shore Hotels' registered office is Bond Street House, 14 Clifford Street, London W1S 4JU.
- (c) The liability of the members of Dawnay Shore Hotels is limited.

2. Units being offered for subscription

A single unit will consist of:

- (a) 50,000 DSH Ordinary Shares with a subscription price of £1 per DSH Ordinary Share; and
- (b) DSH Bonds of £80,000 nominal value divided into the following series of DSH Bonds:
 - (i) £3,000 of December 2004 DSH Bonds of Nominal Value;
 - (ii) £3,000 of June 2005 DSH Bonds of Nominal Value;
 - (iii) £3,000 of December 2005 DSH Bonds of Nominal Value;
 - (iv) £3,000 of June 2006 DSH Bonds of Nominal Value;
 - (v) £3,000 of December 2006 DSH Bonds of Nominal Value;
 - (vi) £3,000 of June 2007 DSH Bonds of Nominal Value;
 - (vii) £3,000 of December 2007 DSH Bonds of Nominal Value;
 - (viii) £3,000 of June 2008 DSH Bonds of Nominal Value;
 - (ix) £3,000 of December 2008 DSH Bonds of Nominal Value; and
 - (x) £53,000 of June 2009 DSH Bonds of Nominal Value;(together a "Unit").

The minimum subscription of Units is 10, and the application form and remittance of funds must reach Shore Capital before 12 July 2004 (or such later date as the Sponsor may determine).

There follows in paragraphs 3 and 4 of this Part 2C descriptions of the Articles of Association of Dawnay Shore Hotels and the Instrument, which respectively govern the rights of the DSH Ordinary Shares and the DSH Bonds which comprise in the Units.

3. Articles of Association

- (a) The authorised share capital of Dawnay Shore Hotels is £2,750,000 divided into 54,999,960 DSH Ordinary Shares and 2,000 DSH Founder Shares.
- (b) *Rights applying to the DSH Founder Shares*

There are 2,000 DSH Founder Shares in issue, with Starlight Investments Limited holding 1,120 DSH Founder Shares, Dawnay, Day Structured Finance Limited holding 280 DSH Founder Shares and Shore Capital Trading Limited holding 600 DSH Founder Shares.

Dividend and capital

The holders of DSH Founder Shares are entitled to a proportion of any dividend declared, or distribution of capital or proceeds made, after the occurrence of any of the following events:

- (i) a sale, transfer or other disposal of any of Dawnay Shore Hotels' assets, business or undertaking ("Asset Sale");
- (ii) a sale of the DSH Ordinary Shares resulting in any person holding all of the issued DSH Ordinary Shares ("Sale");
- (iii) in the event that Dawnay Shore Hotels has obtained a Listing, the DSH Ordinary Shareholders voting by a simple majority not to wind Dawnay Shore Hotels up after the fifth anniversary of completion of the acquisition of the second Target Group unless such acquisition has not happened by 30 September 2004, in which case it shall be the fifth anniversary of completion of the acquisition of Paramount (the "Final Transaction Date"); and
- (iv) a return of assets of Dawnay Shore Hotels on a liquidation, reduction of capital or otherwise; (which together are defined as an "Exit").

A payment made following an Exit shall be allocated amongst Dawnay Shore Hotels' shareholders in the following order and amounts: firstly, the DSH Ordinary Shareholders will receive an amount equivalent to any outstanding Investor Commitments; secondly, the DSH Ordinary Shareholders will receive (after taking account of other Investor Returns then received or receivable) such amount as is equal to a rate of interest of 8 per cent. compounded annually on any outstanding Investor Commitments (the "Hurdle Return"); thirdly, the holders of the DSH Founder Shares shall receive 25 per cent. of the Hurdle Return and thereafter any further monies will be divided, with 80 per cent. allocated to the DSH Ordinary Shareholders and 20 per cent. allocated to the holders of the DSH Founder Shares.

Save in the event of an Exit, the holders of DSH Founder Shares are not entitled to be paid any dividends.

For the purposes of an Asset Sale or Sale, the value attributed to the distribution shall be the aggregate consideration received (net of expenses), and in the event of non cash consideration the value shall be taken as the market value of the non cash consideration at the date of the Sale or Asset Sale.

For the purposes of an Exit in the circumstances described in sub-paragraph (iii) above, the value attributed to the distribution shall be the aggregate market value of all the DSH Ordinary Shares allotted or in issue at the time of such Exit.

For the purposes of a return of assets on a liquidation, reduction of capital or otherwise, the value shall be the surplus of assets of Dawnay Shore Hotels after paying its liabilities (including those to the Investors).

The values referred to in the preceding three paragraphs are together defined for the purposes of this document as the "Exit Value".

To give effect to these valuations in the circumstances referred to in sub-paragraph (iii) above, an appropriate number of DSH Ordinary Shares will automatically convert into deferred shares (in the case of each DSH Ordinary Shareholder, pro rata, to the number of DSH Ordinary Shares respectively held by each of them) so as to ensure that immediately following the vote of the DSH Ordinary Shareholders referred to in sub-paragraph (iii) above, the appropriate allocation of value is made between the holders of the DSH Founder Shares (or any shares derived therefrom) and the DSH Ordinary Shares.

Voting rights

The DSH Founder Shares shall not carry any entitlement to vote at a general meeting of Dawnay Shore Hotels, except that after the fifth anniversary of the Final Transaction Date, as long as Dawnay Shore Hotels has been the subject of a Listing, a majority of the holders of the DSH Founder Shares (or shares deriving therefrom) will have the right to liquidate Dawnay Shore Hotels, and such resolution shall be binding on Dawnay Shore Hotels and the holders of DSH Ordinary Shares.

Dividend and capital

In addition to being solely entitled to any distribution of profits which the DSH Directors resolve to make in any year, the holders of the DSH Ordinary Shares are entitled to a proportion of any dividend or distribution made after an Exit in the amounts and circumstances referred to in the paragraph relating to DSH Founder Shares above.

Voting rights

At any general meeting on a show of hands every DSH Ordinary Shareholder who is present in person or by proxy shall have one vote and on a poll every DSH Ordinary Shareholder who is present in person or by proxy shall have one vote for every share of which he is the holder.

Listing

No application has been or is currently intended to be made for any of the DSH Ordinary Shares to be the subject of a Listing.

(d) Other provisions of the DSH Articles of Association

Variation of rights and changes of capital

The rights attached to any class of shares for the time being in issue may be varied or abrogated either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class, but not otherwise.

Dawnay Shore Hotels may by ordinary resolution increase its share capital, consolidate all or any of its shares into shares of a larger amount, sub-divide its shares into shares of a smaller amount and cancel any shares not taken nor agreed to be taken by any person.

Dawnay Shore Hotels may by special resolution, subject to the provisions of the UK Act, reduce its share capital, any capital redemption reserve and any share premium account. Dawnay Shore Hotels may also, subject to the requirements of the UK Act, purchase its own shares.

Transfer of shares

The articles of association contain no restrictions on the free transferability of fully paid shares, provided that the instrument of transfer is in favour of not more than four transferees and is in respect of only one class of shares, and the provisions in the articles of association relating to the deposit of instruments of transfer have been complied with.

Unclaimed dividends

Any dividend unclaimed after a period of twelve years from the date of its declaration shall be forfeited and shall cease to remain owing by the Dawnay Shore Hotels.

Borrowing powers

The DSH Directors are required to ensure that the aggregate of the amounts borrowed by the Company and its subsidiaries and remaining outstanding at any time (excluding intra-group borrowings, short term overdraft used for working capital and the DSH Bonds) shall not without the previous sanction of an ordinary resolution of Dawnay Shore Hotels exceed 85 per cent. of the aggregate of the fixed assets and the current assets as shown in the balance sheet of Dawnay Shore Hotels plus any acquisition cost of a company, asset, business or undertaking together with any expenses related to such acquisition which are borne by Dawnay Shore Hotels and not recoverable from another party since the last accounting reference date (the "Gross Asset Value").

DSH Directors

DSH Directors should not be less than two nor more than ten in number but this may be varied by ordinary resolution of Dawnay Shore Hotels.

A DSH Director may not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through Dawnay Shore Hotels, but otherwise a DSH Director may so vote in respect of any contract or arrangement or any other proposal in which his interest is not material or in respect of certain exempted matters set out in the articles of association of Dawnay Shore Hotels or in respect of an interest that has been declared at a meeting of the DSH Directors. A DSH Director will still be counted in the quorum at a meeting in relation to any resolution from which he is debarred from voting.

Mr Pantin has been appointed as the Chairman of Dawnay Shore Hotels for an annual fee of £40,000 and will dedicate the equivalent of one day per week to Dawnay Shore Hotels' business. This agreement is for an initial period of twelve months, subject to termination by Dawnay Shore Hotels on three months' notice to take effect on or at any time after expiry of the initial period.

Directors connected to either Shore Capital or Dawnay, Day will not be paid any salary by Dawnay Shore Hotels.

The DSH Directors are entitled to be paid all travelling, hotel and other expenses properly incurred in attending and returning from meetings of the DSH Directors or any committee of the DSH Directors or general meetings of Dawnay Shore Hotels, or otherwise in connection with the business of Dawnay Shore Hotels. The DSH Directors may pay extra remuneration out of the funds of Dawnay Shore Hotels by way of salary, commission or otherwise to any DSH Director who holds an executive office or otherwise performs services for Dawnay Shore Hotels outside the scope of the ordinary duties of a DSH Director.

There is no age limit for DSH Directors. The DSH Directors will not be subject to retirement by rotation.

Life span

If no Exit has occurred by the fifth anniversary of the Final Transaction Date, the Directors will seek an Exit which may include an orderly disposal of Dawnay Shore Hotels and/or its assets.

4. The DSH Bonds

The Instrument will be entered into by the DSH Subsidiary, and the DSH Subsidiary will accordingly be the entity which issues the Bonds. The DSH Subsidiary has been established as a public limited company incorporated under the Companies Act 1985 in England and Wales with company number 5154151. The DSH Subsidiary's issued share capital comprises 50,000 ordinary shares of £1 each, all of which are beneficially held by Dawnay Shore Hotels. Dawnay Shore Hotels will support the payment by the DSH Subsidiary of all sums due from time to time under the Instrument.

The Instrument

- (a) The DSH Bonds will be constituted by the Instrument and will consist of ten series of unsecured DSH Bonds with a nominal value and final redemption date (the "Final Redemption Date") of:

£2,250,000 31 December 2004 DSH Bonds
£2,250,000 30 June 2005 DSH Bonds
£2,250,000 31 December 2005 DSH Bonds
£2,250,000 30 June 2006 DSH Bonds
£2,250,000 31 December 2006 DSH Bonds
£2,250,000 30 June 2007 DSH Bonds
£2,250,000 31 December 2007 DSH Bonds
£2,250,000 30 June 2008 DSH Bonds
£2,250,000 31 December 2008 DSH Bonds
£39,750,000 30 June 2009 DSH Bonds

The Instrument includes the following provisions:

(b) *Form and status*

The DSH Bonds will be issued in registered form and each Bondholder will be entitled to a certificate stating the nominal amount of the class of DSH Bonds held by it, the subscription price and the discount element attributable to the nominal amount. The DSH Bonds, supported by Dawnay Shore Hotels, will be unsecured and their subscription price per £1,000 of nominal value will be:

£943.40	December 2004 DSH Bonds
£890.00	June 2005 DSH Bonds
£839.62	December 2005 DSH Bonds
£792.09	June 2006 DSH Bonds
£747.26	December 2006 DSH Bonds
£704.96	June 2007 DSH Bonds
£665.06	December 2007 DSH Bonds
£627.41	June 2008 DSH Bonds
£591.98	December 2008 DSH Bonds
£558.39	June 2009 DSH Bonds

(c) *Interest*

The DSH Bonds will bear no interest and carry no right to interest save for default interest in the event that the DSH Subsidiary fails at any time to make any payment in relation to the DSH Bonds on the date that such payment is due (the “Outstanding Amount”). In such circumstances, the DSH Subsidiary shall pay to the Bondholders interest on the Outstanding Amount for the period between the due date and the date on which such unpaid sum is paid in full. Interest will accrue daily in arrears on the basis of a six month period of 183 days. The interest rate is 6 per cent. for each six month period. Interest accrued under this provision shall on each semi-annual anniversary of the due date be consolidated with the Outstanding Amount and shall itself bear interest at a rate of 6 per cent. per six month period and shall be payable in full on the date on which the Outstanding Amount is paid in full.

(d) *Redemption of DSH Bonds*

If not previously redeemed in whole or in part, the DSH Bonds shall be redeemed at their nominal amount on the relevant Final Redemption Date, save that the June 2009 DSH Bond shall only be redeemed after the DSH Subsidiary has served a written notice on the holders of such class of DSH Bonds. The DSH Subsidiary will until all the June 2009 DSH Bonds have been redeemed by the DSH Subsidiary, pay to the holders of such bonds an additional amount equivalent to a rate of interest equal to 6 per cent. per six months compounded semi-annually. Such sum shall accrue from 30 June 2009 until the relevant DSH Bonds are redeemed.

Prior to the Final Redemption Date, the DSH Subsidiary may, by giving not less than five business days’ prior written notice to the relevant class of Bondholders, redeem all of that class of DSH Bonds held by the Bondholders for a redemption amount calculated in accordance with the terms of the Instrument.

The DSH Subsidiary may make a partial redemption of a class of the DSH Bonds prior to the Final Redemption Date by notice to the relevant class of Bondholders. The amount payable on such partial redemption will be calculated in accordance with the terms of the Instrument (provided that the DSH Subsidiary will pay the partial redemption amount to holders of that class of DSH Bond in proportion to the ratio of the DSH Bonds in that class held by each Bondholder to the total number of DSH Bonds of that class in issue).

On redemption (including early redemption) the DSH Bonds will return the equivalent of a 6 per cent. compound return every six months (or proportion of any part of a six month period) on the subscription price of such class of DSH Bonds.

(e) *Cancellation*

All Bonds redeemed by the DSH Subsidiary shall be cancelled and shall not be available for reissue.

(f) *Modification*

The provisions of the Instrument may not be altered, abrogated or added to save with the consent in writing of the DSH Subsidiary and the holders of more than 50 per cent. of the nominal value of the June 2009 DSH Bonds.

(g) *Registration and transfer*

Bondholders shall be entitled to sell or transfer all or any part of the DSH Bonds in amounts or integral multiples of £1,000 for each class of DSH Bond (or the entire holding if less than £1,000).

Every instrument of transfer must be left, duly stamped (if applicable), at the registered office of the DSH Subsidiary from time to time for registration accompanied by the certificate of the DSH Bonds to be transferred and such other evidence (if any) as the DSH Subsidiary may reasonably require to prove the title of the transferor or its right to transfer the DSH Bonds (and if the instrument of transfer is executed by some other person on his behalf the authority of that person to do so), whereupon the DSH Subsidiary shall procure that such transfer shall be so registered. No fee will be charged by the DSH Subsidiary for the registration of any transfer.

(h) *No listing*

No application has been or is intended to be made to any stock exchange for any of the DSH Bonds to be listed or otherwise traded.

(i) *Governing law*

The Instrument and the DSH Bonds shall be governed by and construed in accordance with the laws of England.

(j) *The Undertaking*

Dawnay Shore Hotels will enter into the Undertaking pursuant to which it will undertake, in default of the DSH Subsidiary performing its obligations under the Instrument, to perform such obligations in place of the DSH Subsidiary. The Undertaking continues in effect until all obligations of the DSH Subsidiary under the Instrument have been performed in full. Dawnay Shore Hotels is required to gross-up any payments made under the Undertaking, so as to neutralise for Bondholders the effect of any deductions or withholdings required to be made from such sums. The obligations of Dawnay Shore Hotels to the Bondholders pursuant to the Undertaking are fully subordinated to the obligations of Dawnay Shore Hotels to Anglo Irish Bank Corporation Plc under the facility agreement, as further described in paragraph 5(f) of this Part 2C. The Undertaking is governed by English law.

5. Other material contracts

(a) *Portfolio Management Agreement*

Services

Dawnay Shore Hotels has agreed, conditionally on either or both of the acquisitions of the Target Groups taking place, to appoint Shore Capital Limited and Dawnay, Day Hotels Limited on an exclusive basis to provide, or procure the provision from within their respective groups of, portfolio management services to Dawnay Shore Hotels.

Each of Shore Capital Limited and Dawnay, Day Hotels Limited will make available all expertise and knowledge necessary to the performance of services and will at all times act in good faith towards Dawnay Shore Hotels.

Dawnay, Day Hotel Limited's management services comprise services relating to various matters including making available representatives to serve on the DSH Board and otherwise assisting in the overall management and control of the business and affairs of Dawnay Shore Hotels, overseeing the performance of Dawnay, Day Hotel Management Limited and providing property related expertise in relation to the Group's assets.

Shore Capital Limited's management services comprise services relating to various matters including making available representatives to serve on the DSH Board and otherwise assisting on the overall management and control of the business and affairs of Dawnay Shore Hotels, co-ordinating the making of distributions to shareholders and co-ordinating the production and distribution of annual and interim accounts and related reports.

Indemnity

Dawnay Shore Hotels will indemnify Shore Capital Limited and Dawnay, Day Hotels Limited against all costs, claims and expenses incurred in relation to their dealings with Dawnay Shore Hotels provided that they have not arisen as a consequence of any gross negligence, fraud, wilful misconduct, bad faith or reckless disregard for their obligations and duties to Dawnay Shore Hotels.

Dawnay Shore Hotels confirms that neither Shore Capital Limited or Dawnay, Day Hotels Limited shall have any liability for any loss to Dawnay Shore Hotels arising from their dealings with Dawnay Shore Hotels, provided such loss has not arisen from their fraud, wilful misconduct, bad faith or reckless disregard for their obligations and duties to Dawnay Shore Hotels.

Term and termination

The agreement will continue for a period of five years, subject to earlier termination by Dawnay Shore Hotels, upon giving not less than three months' notice following a sale of all of the shares of Dawnay Shore Hotels.

Dawnay Shore Hotels may also determine the appointment of Shore Capital Limited or Dawnay, Day Hotels Limited under the agreement if there has been a material breach by the party concerned of its obligations or on an insolvency event arising in relation to such party.

Fees

Dawnay, Day Hotels Limited will be paid an annual fee in respect of each accounting period equivalent to 0.43 per cent. of the Gross Asset Value of Dawnay Shore Hotels.

Shore Capital Limited will be paid an annual fee in respect of each accounting period equivalent to 0.17 per cent. of the Gross Asset Value of Dawnay Shore Hotels.

These fees are payable by Dawnay Shore Hotels quarterly in arrears. In respect of fees payable prior to the end of the first financial year of the Company, the Gross Asset Value shall be taken to be the sum of acquisition costs of hotels from time to time.

Rights of first refusal

In the event that, whilst Dawnay, Day Hotels Limited remains a party to the Portfolio Management Agreement, Dawnay, Day Hotels Limited or its associates (including Messrs Naggar and Klimt) have an opportunity to acquire any mid-market hotels and Dawnay Shore Hotels has sufficient unutilised funds to itself complete such an acquisition (on the assumption that 80 per cent. of the consideration could be financed through additional senior debt), then Dawnay, Day Hotels Limited or the relevant associate of Dawnay, Day Hotels Limited is required to give Dawnay Shore Hotels first refusal in respect of that acquisition. This right of first refusal applies only in respect of mid-market hotels which are either intended to be managed by Dawnay, Day Hotel Management Limited or whose acquisition would create synergies with the hotels then owned by Dawnay Shore Hotels. Where such an opportunity arises, but Dawnay Shore Hotels does not have sufficient funds to make the acquisition in its own right, then Dawnay, Day Hotels Limited (or the relevant Dawnay, Day associate) is only required to inform Dawnay Shore Hotels of the opportunity.

Conflicts of interest

The Management Agreement includes provision for Shore Capital Limited, Dawnay, Day Hotels Limited and Dawnay Shore Hotels to agree policies to regulate the management and resolution of conflicts of interest which may arise between Dawnay Shore Hotels and Dawnay,

Day Hotels Limited. The conflict policies will include, as a minimum, provision for notification to Dawnay Shore Hotels of any conflicts and for any such conflicts to be addressed in such manner as the DSH Board may direct (with any directors connected to Dawnay, Day having no vote in relation to any such DSH Board decision).

Warranties

Each of Shore Capital Limited and Dawnay, Day Hotels Limited give certain warranties to Dawnay Shore Hotels as regards their power to enter into and perform the Portfolio Management Agreement and the binding nature of the agreement.

Professional indemnity insurance

Each of Shore Capital Limited and Dawnay, Day Hotels Limited will (so far as such insurance is reasonably available) maintain adequate professional indemnity insurance with a UK insurer of repute from the date of the agreement until six years after its termination.

Alienation

Shore Capital Limited and Dawnay, Day Hotels Limited may sub-contract or otherwise delegate any of their rights and duties under the agreement to any of their respective group companies and may assign the benefit of the agreement to any such group company which is approved by the DSH Board. Neither Shore Capital Limited or Dawnay, Day Hotels Limited may otherwise assign, sub-contract, delegate, transfer or charge any of their rights or duties under the Portfolio Management Agreement without the prior written consent of Dawnay Shore Hotels.

(b) Operating Agreement

Conflicts of interest

Dawnay Shore Hotels and Dawnay, Day Hotels Management Limited have agreed, with effect from the Closing Date, that Dawnay, Day Hotel Management Limited will provide hotel management services to Dawnay Shore Hotels in respect of all hotels then owned and to be acquired by Dawnay Shore Hotels.

Services

Under the terms of the agreement, Dawnay, Day Hotel Management Limited will provide or procure the provision of wide ranging services to Dawnay Shore Hotels to supervise, direct and control the management, operation and promotion of all aspects of the hotels then owned by and to be acquired by Dawnay Shore Hotels. Dawnay, Day Hotel Management Limited's management services comprise services relating to various matters including (i) establishing, operating and marketing reservation programmes and systems, (ii) hiring and procuring staff and the procurement of the training of staff, (iii) overseeing the accounting procedures and books and accounts, (iv) setting prices for all areas of the hotels and administering the collection of income, (v) procuring relevant contracts, licences and suppliers for the businesses of the hotels and (vi) performing such other tasks as are customary for a hotel management business. Dawnay, Day Hotel Management Limited will be granted a licence by Dawnay Shore Hotels to use all necessary IT assets (software, hardware and infrastructure) and trademarks owned and/or licensed to Dawnay Shore Hotels or members of its group to enable Dawnay, Day Hotel Management Limited to provide the management services.

Performance targets

Under the agreement, Dawnay, Day Hotel Management Limited is required to meet certain performance targets. The performance targets will be set out in the annual plan, measured over two quarters, to be pre-agreed by and subject to the annual approval of the DSH Board.

Term and termination

Subject to earlier termination in the circumstances described below, the agreement can be terminated on three months' notice to expire not earlier than the fifth anniversary of the Closing Date.

Either party can terminate the agreement in certain circumstances, including for an insolvency related event, material breach, fraud or wilful misconduct and non-payment in accordance with the terms of the agreement. In addition, Dawnay Shore Hotels can terminate the agreement on three months' notice to coincide with an Exit.

Dawnay Shore Hotels also has the option to terminate the agreement on one month's notice in the event that the operating profit for the hotels for two consecutive quarters is below the relevant performance targets as described above.

Dawnay Shore Hotels is not required to reimburse Dawnay, Day Hotel Management Limited for any costs associated with the termination of the agreement (including terminating employees and winding up the business of Dawnay, Day Hotel Management Limited (if applicable)) on termination of the agreement.

Dawnay, Day Hotel Management Limited is also required to reassign and/or transfer back to Dawnay Shore Hotels all contracts or assets used by Dawnay, Day Hotel Management Limited relating to Dawnay Shore Hotels (where it is able to do so). However, if Dawnay, Day Hotel Management Limited requires any such contracts or assets to enable it to provide ongoing hotel management services to the Quintessential group, Dawnay Shore Hotels and Dawnay, Day Hotel Management Limited will agree the fees payable for the licence of such contracts or use of such assets on an arms length basis to enable Dawnay, Day Hotel Management Limited to continue to provide such services to the hotels within the Quintessential group.

Costs and fees

Dawnay Shore Hotels will reimburse Dawnay, Day Hotel Management Limited all actual apportioned costs (without mark up or profit) associated with the provision of the management services to the hotels. The actual costs (without mark up or profit) associated with the provision of management services by Dawnay, Day Hotels Limited to Dawnay, Day Hotel Management Limited will also be recharged to Dawnay Shore Hotels. In each case, such costs will be set out in the annual budget and agreed with the DSH Board.

The intention is that neither Dawnay, Day Hotels Limited nor any member of the Dawnay, Day Group will profit from the relationship between any member of the Dawnay, Day Group and Dawnay Shore Hotels, save as otherwise specifically provided for under the Portfolio Management Agreement and the Structuring Fee Agreement.

Restrictions

During the term of the agreement Dawnay, Day Hotel Management Limited and its affiliates are restricted from owning, being interested in, participating in or assisting in the operation of or operating a hotel or business providing hotel accommodation of a similar quality or similar standard to Dawnay Shore Hotels or licensing any third party to operate Dawnay Shore Hotels to the Paramount standard within a ten mile radius of each of the hotels of Dawnay Shore Hotels.

Assignment

Dawnay Shore Hotels' prior written consent is required by Dawnay, Day Hotel Management Limited to assign the agreement. Assignments to competitors or certain other categories of non-desirable entities are restricted. The agreement contains an express right for Dawnay Shore Hotels to charge the assets of Dawnay Shore Hotels subject to Dawnay, Day Hotel Management Limited's ability to perform its duties under the agreement remaining unaffected.

Conflicts of interest

In order to ensure that Messrs Purtill, Goulding and Taylor are not in a position to favour the interests of Quintessential over the interests of any of the hotels which will be owned by Dawnay Shore Hotels, each of them has entered into various covenants directly with both Dawnay Shore Hotels and Dawnay, Day Hotel Management Limited whereby they have agreed always to act in the best interests of Dawnay Shore Hotels, and have also undertaken non-compete and non-solicit restrictions in relation to clients and employees of Dawnay, Day Hotels Management Limited.

In addition, Dawnay, Day Hotel Management Limited has agreed with Shore Capital and Dawnay Shore Hotels that it will implement, and procure the implementation of, a “conflicts disclosure” policy whereby it or the relevant party will be required to inform the DSH Board:

- prior to Dawnay, Day Hotel Management Limited committing itself to a related party proposal which involves the sharing or transferring of assets, services or staff within the Group
- of any actual or potential conflicts at an operating level which may arise from time to time as between Dawnay Shore Hotels and Dawnay, Day Hotel Management Limited or any associate of the Dawnay, Day Group

and to act in relation to any such actual or perceived conflict of interest as reasonably directed by the DSH Board (the directors of the DSH Board connected with Dawnay, Day abstaining).

(c) IT Services Agreement

Dawnay Shore Hotels shall own all the IT assets (including hardware, software and infrastructure) previously owned by Paramount. Dawnay Shore Hotels and Dawnay, Day Hotel Management Limited have agreed that, with effect from the Closing Date, Dawnay, Day Hotel Management Limited will manage and support the IT systems used by Dawnay Shore Hotels and/or members of its group. Under the terms of this agreement, Dawnay Shore Hotels shall use all reasonable endeavours to grant or procure the necessary consents, permissions and licences for Dawnay, Day Hotel Management Limited to use the IT assets for the provision of the management services contemplated under the Operating Agreement.

Under the agreement, Dawnay, Day Hotel Management Limited shall support, maintain and manage the IT assets to provide the same level of support, maintenance and management as was provided in respect of Paramount. Dawnay Shore Hotels shall use all reasonable endeavours to assign or novate all applicable support and maintenance agreements to Dawnay, Day Hotel Management Limited to enable it to fulfil its obligations under this agreement.

To assist Dawnay, Day Hotel Management Limited in providing marketing services to Dawnay Shore Hotels under the Operating Agreement, Dawnay Shore Hotels is required to use all reasonable endeavours to obtain all necessary consents to enable Dawnay, Day Hotel Management Limited to utilise the Dawnay, Day Hotel Management Limited customer database.

In the event any material consent cannot be obtained or, Dawnay, Day Hotel Management Limited is unable to deliver the services to the required standard, Dawnay Shore Hotels can require the management and support services to be brought back in-house or contract with a third party to provide such services, as appropriate.

(d) Structuring Fee Agreement Services

Dawnay Shore Hotels has agreed to appoint Shore Capital and Shore Capital Stockbrokers Limited to provide corporate finance advisory services to Dawnay Shore Hotels in connection with fundraising by Dawnay Shore Hotels and related hotel acquisitions, including in connection with the offering of Units.

Shore Capital will provide specified services in relation to any fundraising and related acquisitions by Dawnay Shore Hotels, including general project management and using its reasonable endeavours to effect the fundraising on behalf of Dawnay Shore Hotels.

Shore Capital Stockbrokers Limited will provide specified stockbroking services in relation to any fundraising and related acquisitions by Dawnay Shore Hotels, including organising and managing marketing programmes and completing a bookbuilding process.

Indemnity

Dawnay Shore Hotels will indemnify each of Shore Capital and Shore Capital Stockbrokers Limited and their directors and employees against all liabilities incurred in relation to their engagement by Dawnay Shore Hotels provided that such liabilities have not arisen as a consequence of any fraud, material negligence or wilful default of Shore Capital or, as the case may be, Shore Capital Stockbrokers Limited or their respective directors and employees.

If a matter arises which may give rise to a claim by Shore Capital or Shore Capital Stockbrokers Limited under the indemnity described above, then Dawnay Shore Hotels is entitled to require Shore Capital or Shore Capital Stockbrokers Limited (as the case may be) to take such action in respect of the claim as Dawnay Shore Hotels may reasonably request or to itself assume conduct of the claim, subject to the consent of Shore Capital's or Shore Capital Stockbrokers Limited's (as the case may be) insurers and subject to Dawnay Shore Hotels indemnifying and securing Shore Capital and Shore Capital Stockbrokers Limited against any liabilities which may be incurred.

Term and termination

The agreement is terminable by any party giving three months' notice, provided that the earliest any such notice can take effect in relation to termination by Dawnay Shore Hotels is five years from the date of the agreement.

Each of Dawnay Shore Hotels and Shore Capital /Shore Capital Stockbrokers Limited may immediately determine the agreement if the other fails to comply with any material legal or regulatory requirement. Shore Capital and Shore Capital Stockbrokers Limited may also immediately terminate the agreement if they believe such termination is necessary in order to preserve their reputation or in the event of a material breach by Dawnay Shore Hotels of the agreement.

Fees

Dawnay Shore Hotels will pay to Shore Capital a corporate finance fee equal to 0.5 per cent. of the aggregate cost to Dawnay Shore Hotels (including consideration and expenses borne by Dawnay Shore Hotels) of each hotel acquisition effected by Dawnay Shore Hotels. The fee is payable upon completion of the relevant acquisition. Shore Capital has agreed with Dawnay, Day to pay to Dawnay, Day one-half of any such fee received by it (after deduction of any third party commission or other payments or deductions).

Alienation

Each of Shore Capital and Shore Capital Stockbrokers Limited may assign the benefit (subject to the burden) of the agreement to any suitable Shore Capital group company. Dawnay Shore Hotels is not entitled to assign its rights under the agreement without the prior written consent of Shore Capital /Shore Capital Stockbrokers Limited.

(e) Paramount Acquisition Agreement

Principal sale and purchase agreement

A draft agreement relating to the sale and purchase of Paramount between Alchemy Partners Nominees Limited, Michael Purtill, Ian Goulding and Others (the "Sellers") (1) and Dawnay Shore Hotels (2). Under this agreement Dawnay Shore Hotels will agree to acquire the majority of the issued share capital of Paramount from the Sellers. The acquisition is made on a debt-free/cash-free basis, the consideration payable being £215 million (excluding associated costs), part of which will be utilised on completion to discharge the borrowings of the Paramount group of companies (the "Paramount Group"). The agreement provides for warranties to be given by two of the Sellers (Michael Purtill and Ian Goulding) in favour of Dawnay Shore Hotels in respect of certain undisclosed financial, commercial, employment, trading and taxation issues. In addition Messrs Purtill and Goulding have agreed to enter into a covenant in favour of Dawnay Shore Hotels in respect of certain possible taxation liabilities of the Paramount Group. These warranties and covenants will be subject to certain financial and time limits.

The agreement further provides for certificates of title to be given in favour of Dawnay Shore Hotels in respect of each of the Paramount hotels.

Messrs Purtill and Goulding will also enter into certain covenants not to solicit or employ any employees of Paramount.

Minority sale and purchase agreement

An agreement will be entered into for the purchase of the remaining issued share capital of Paramount by Dawnay Shore Hotels from several minority shareholders. The warranties given by the minority shareholders are limited to their ownership of the shares being sold and their sale unencumbered by any restrictions.

Provisions relating to optionholders in Paramount

Separate provision is also made for the acquisition on similar terms and at an equivalent price per share, calculated on a debt-free/cash free basis, of shares resulting from the exercise of certain options held in respect of shares in the capital of Paramount. As a result of each of these agreements, Dawnay Shore Hotels will acquire the whole of the issued and to be issued share capital of Paramount.

(f) Facility Agreement

A draft facility agreement relating to the provision of acquisition finance by Anglo Irish Bank Corporation Plc in the form of an approximately 5 year term loan of up to £305 million. The facility is available to finance the acquisition of Paramount and the other Target Group or for the acquisition of Paramount alone. The facility is split approximately as to £177 million for the acquisition of Paramount and £128 million for the acquisition of the other Target Group. The loan is to be repaid in part by quarterly instalments, the balance being repayable at maturity of the loan's term. Proceeds of any disposals by Dawnay Shore Hotels will pay down outstanding principal. The facilities bear interest at a margin above cost of funds. Dawnay Shore Hotels has agreed an interest rate hedging strategy with the lender. The facility agreement provides for normal covenants to be given to the lender including financial covenants regarding loan-to-value ratios, EBITDA-to-loan ratios, cashflow cover and debt service cover. Provision is made for Dawnay Shore Hotels to maintain specific debt service and capital expenditure accounts.

The facility is secured by cross-guarantees, debentures and first fixed charges over each of the hotels and all of the other assets and undertaking of Dawnay Shore Hotels and the DSH Subsidiary, of each member of the Paramount Group and, if acquired, the second Target Group.

(g) Intra-Group Facility and Subordination Deed

The DSH Subsidiary and Dawnay Shore Hotels will enter into an intra-group loan agreement (the "Intra-Group Loan") whereby the DSH Subsidiary will lend to Dawnay Shore Hotels an amount equivalent to the aggregate sum subscribed by Investors for the DSH Bonds. The Intra-Group Loan will be repayable on demand and will carry interest at a rate to be agreed by Dawnay Shore Hotels and the DSH Subsidiary. The purpose of the Intra-Group Loan is to part-fund the acquisition by Dawnay Shore Hotels of the Target Groups.

Dawnay Shore Hotels and the DSH Subsidiary will enter into a subordination deed with Anglo Irish Bank Corporation Plc pursuant to which the DSH Subsidiary will agree to fully subordinate the Intra-Group Loan to the term loan being provided by Anglo Irish Bank Corporation Plc pursuant to the facility agreement referred to above.

PART 3

RISK FACTORS

The Directors believe that an investment in the Ordinary Shares is subject to a number of risks. Prospective investors and investors should consider carefully all of the information set out in this document and the risks attaching to an investment in the Company, including, in particular, the risks described below, before making any investment decision. The information below does not purport to be an exhaustive list. Prospective investors and investors should consider carefully whether investment in the Ordinary Shares is suitable for them in light of the information in this document and their personal circumstances.

- There can be no guarantee that the Company will successfully invest in any businesses meeting the objectives for which it has been established. No representation is or can be made as to the future operating performance of the investments made by the Company.
- The financial projections contained in this document have been prepared to provide an illustration of the possible returns to investors in Dawnay Shore Hotels. The Directors can give no assurance that these illustrative financial projections will be achieved and investors should be aware that the actual performance of the investments may vary materially from these illustrative financial projections.
- In the event that there is a significant breach of banking covenants by Dawnay Shore Hotels which would be caused *inter alia* if the value of its assets fell materially, the lending banks may, in certain circumstances, be able to exercise their security interest in those assets, as a result of which the value of the Company's investment in Dawnay Shore Hotels may be depleted or eliminated.
- The Company's strategy is to invest in hotels and/or hotel chains in the UK, operating principally outside London and in the mid-market, four star range. There can be no certainty concerning the future performance of these hotels.
- The financial operations of the investments made by the Company may be adversely affected by the impact of general economic conditions, and by conditions within the leisure and travel and property and financial markets (including levels of interest rates and changes in taxation) or by the particular financial condition of parties doing business with the Company.
- The success of the Company depends, in part, on the availability of businesses that meet the Company's investment criteria, the ability of the Directors to negotiate investments on attractive terms and, in particular in relation to Paramount, the expertise of the Supervisory and Operating Boards of Dawnay Shore Hotels.
- Dawnay Shore Hotels is expected to finance a substantial part of its acquisition cost of hotels by borrowing. Borrowing may expose the company to movements in loan interest rates and the possibility that if the value of the hotels falls, the company's capital repayment commitments may exceed the capital value of the company's assets.
- Units in Dawnay Shore Hotels may represent an illiquid investment since there may be no market for the Units or the underlying DSH Ordinary Shares and DSH Bonds. It may also be difficult for the Company to ascertain the value of its Units or to sell its Units or the underlying DSH Ordinary Shares or DSH Bonds before a sale of the underlying assets of Dawnay Shore Hotels. The value of Units may go down as well as up.
- Dawnay Shore Hotels is proposing to dispose of the properties in its portfolio at the end of its planned life. It may be difficult to dispose of such properties at the values which the DSH Board considers are reasonable in the circumstances, but which represent discounts to book valuations, in order to manage an orderly winding up of Dawnay Shore Hotels.

- As further investment opportunities may arise in the future, it may become necessary for the Company to raise additional further funds by a further issue of Ordinary Shares.
- AIM is not the Official List. Consequently, it may be more difficult for an investor to sell his/her Ordinary Shares and he/she may receive less than the amount paid. The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets. The market for shares in smaller public companies is less liquid than for larger public companies. Consequently, the Company's share price may be subject to greater fluctuation and the shares may be difficult to buy and sell. The Ordinary Shares may not be suitable as a short term investment.
- Application will be made for the Company's issued share capital to be traded on AIM. AIM is a market designed primarily for emerging or smaller companies. The rules of this market are less demanding than those of the Official List. The London Stock Exchange has not itself examined this document for the purposes of Admission.

PART 4

AUDITORS' AND ACCOUNTANTS' REPORT ON THE HOTEL CORPORATION

The following is the full text of a report on The Hotel Corporation from Baker Tilly, the Auditors and Reporting Accountants, to the Directors of The Hotel Corporation and Shore Capital.



BAKER TILLY

2 Bloomsbury Street
London WC1B 3ST
www.bakertilly.co.uk

The Directors
The Hotel Corporation plc
1st Floor
28 Victoria Street
Douglas
Isle of Man IM1 2LE

and

The Directors
Shore Capital and Corporate Limited
Bond Street House
14 Clifford Street
London W1S 4JU

9 July 2004

Dear Sirs

The Hotel Corporation plc (“the Company”)

Introduction

We report in connection with the proposed placing of the ordinary shares of the Company (“the Placing”) and the admission of the ordinary share capital of the Company to trading on AIM (“the Admission”). This report has been prepared for inclusion in the prospectus dated 9 July 2004 (“Prospectus”) of the Company.

The Company was incorporated in the Isle of Man with Company number 111066C on 7 June 2004 as Rievaulx Limited. On 10 June 2004 the Company changed its name to The Hotel Corporation plc and became a public limited company.

The Company has not traded, prepared any financial statements for presentation to members, incurred neither profit nor loss, and neither declared nor paid dividends or made any other distributions since the date of incorporation. There have been no transactions other than the allotment of shares described below and the execution of the material contracts referred to in section 4 of Part 5 of the Prospectus. Accordingly, no profit and loss account information is presented in this report.

Basis of preparation

The financial information set out below has been extracted from the financial records of the Company for the period from incorporation to 8 July 2004, no adjustments being considered necessary. No audited financial statements have been prepared for submission to members in respect of any period since incorporation.

Responsibility

The financial records are the responsibility of the directors of the Company (“the Directors”). The Directors are also responsible for the contents of the Prospectus dated 9 July 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the Company’s financial records, and to make a report in accordance with paragraph 45 of Schedule 1 to the Public Offers of Securities Regulations 1995 and Part II of the Fourth Schedule of the Isle of Man Companies Act 1931 (as amended). Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial records and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purpose of the Prospectus, a true and fair view of the state of affairs of the Company as at 8 July 2004.

BALANCE SHEET

	<i>Notes</i>	<i>As at 8 July 2004 £</i>
Current assets		
Cash at bank and in hand		<u>2</u>
Represented by:		
Share Capital	2	<u><u>2</u></u>

Notes to the financial information

1. Accounting policies

The principal accounting policies which have been consistently applied in the Company's financial information throughout the period under review are as follows:

Accounting convention

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

2. Share capital

The Company was incorporated with an authorised share capital of £2,000 comprising 2,000 ordinary shares of £1 each. One ordinary share was allotted for cash, and fully paid, on incorporation. On 10 June 2004, a further ordinary share was allotted at par. The existing authorised share capital was subdivided on 6 July 2004 into 40,000 ordinary shares with a nominal value of 5p each and on the same date the authorised share capital was increased to £4,000,000 by the creation of 79,960,000 additional ordinary shares of 5p each.

3. Nature of financial information

The financial information presented above in respect of the period ended 8 July 2004 does not constitute statutory accounts for that period.

4. Consent

We consent to the inclusion of this report in the Prospectus and accept responsibility for this report for the purposes of paragraph 45 of Schedule 1 of the Public Offers of Securities Regulations 1995.

Yours faithfully

Baker Tilly

Chartered Accountants
Registered Auditor

nearly as may be practicable) to the respective numbers of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any recognised stock exchange in any country or territory; (c) the allotment (other than pursuant to paragraphs (a) and (b) above) of shares up to a maximum aggregate nominal value of £900,000.

- (d) No shares in the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.
- (e) The Placing Shares will rank in full for all dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.
- (f) Save as set out in this document the Company has no present intention to issue any of the authorised but unissued share capital of the Company.
- (g) Except as stated in this document:
 - (i) the Company does not have in issue any securities not representing share capital; and
 - (ii) there are no outstanding convertible securities issued by the Company.
- (h) No share capital of the Company is under option or has been agreed conditionally or unconditionally to be put under option.
- (i) None of the Directors or members of their families has a related financial product referenced to the Ordinary Shares.

3. Interests in the Company

- (a) The interests (all of which are beneficial) of applicable employees and of the Directors and their immediate families and of persons connected with them within the meaning of section 346 of the UK Act in the share capital of the Company as at the date of this document (which would have been notified to the Company pursuant to section 324 of the UK Act were the Company incorporated in England and Wales), or could, with reasonable diligence, be ascertained by the Directors and as they are expected to be immediately following completion of the Placing are as follows:

<i>Name</i>	<i>Number of Ordinary Shares before the Placing</i>	<i>Number of Ordinary Shares after the Placing</i>	<i>Percentage of issued share capital after the Placing</i>
Barclay Douglas	—	100,000	0.45%
Donald Adamson	—	20,000	0.09%
Ita McArdle	—	—	—
Derek Short	—	10,000	0.05%

Save as disclosed in this paragraph no Director, no member of their respective families, and no person connected with them within the meaning of section 346 of the UK Act, is interested in any share capital of the Company.

- (b) No loan or guarantee has been granted or provided by the Company to any Director or any person connected with them.
- (c) The Directors whose names appear on page 3 of this document, have been appointed to the offices set out against their respective names. The service agreements and engagement letter summarised below, dated on or around 17 June 2004, are conditional upon Admission:

- (i) Barclay Douglas has been appointed as a non-executive Chairman of the Company for an annual fee of £20,000. His appointment is for a period of one year subject, however, to him resigning at any time thereafter by giving the Company three months' notice in writing to this effect.
- (ii) Donald Adamson has been appointed as a non-executive director of the Company for an annual fee of £18,000. His appointment is for a period of one year subject, however, to him resigning at any time thereafter by giving the Company three months' notice in writing to this effect.
- (iii) Ita McArdle has been appointed as a non-executive director of the Company for an annual fee of £4,000 together with such additional payments as the Board may authorise from time to time, payable to Simcocks Trust Limited. Her appointment is for a period of one year subject, however, to her resigning at any time thereafter by giving the Company three months' notice in writing to this effect.
- (iv) Derek Short has been appointed as a non-executive director of the Company for an annual fee of £18,000. His appointment is for a period of one year subject, however, to him resigning at any time thereafter by giving the Company three months' notice in writing to this effect.

Save as aforesaid, there are no other service agreements and engagement letters between the Company and any existing or proposed Director.

- (d) The Company has arranged directors' and officers' liability insurance cover in respect of each of the Directors.
- (e) It is estimated that the aggregate emoluments (including benefits in kind and pension contributions) of the Directors for the period from incorporation to 31 December 2004, will amount to approximately £30,000 under the arrangements in force at the date hereof.
- (f) Save as disclosed in this document, none of the Directors has or has had any interest in transactions effected by the Company since its incorporation which are or were unusual in their nature or conditions or which are or were significant to the business of the Company.
- (g) The Company is aware of the following persons who, immediately following the Placing, will, directly or indirectly, be interested in three per cent. or more of the enlarged issued share capital, or who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital of the Company</i>
JP Morgan Fleming Asset Management Limited	3,300,000	15.00%
Barfield Nominees Limited	3,000,000	13.64%
The Puma (II) Fund	3,000,000	13.64%
Jupiter Asset Management Limited	2,500,000	11.36%
Artemis Investment Management Limited	1,300,000	5.91%
Rathbone Unit Trust Management Limited	1,200,000	5.45%
Starlight Investments Limited	1,000,000	4.55%
PJO Nominees Limited	1,000,000	4.55%
Gartmore Investment Management plc	870,000	3.95%

- (h) The partnerships and directorships held by each of the Directors over the five years preceding the date of this document other than in the Company, are as follows:

	<i>Current directorships</i>	<i>Past directorships</i>
Barclay Douglas	Worldmark International Limited Shore Capital Group plc Advance Visual Communications plc Second Advance Value Realisation Company Limited	Advarc II Limited Homelink Technologies Limited
Donald Adamson	The Lindsell Train Investment Trust PLC Research & Consulting Associates Limited Forbes Limited Daglingworth Limited Juno International Participations Limited Juno Participations (Canada) Limited Pantheon USA Fund Limited The Bayard Fund Limited Pantheon Asia Fund Limited Pantheon USA Fund II Limited Meridian Asset Management (CI) Limited Pantheon Europe Limited Alternative Investment Strategies Limited Pantheon Asia Fund II Limited Pantheon USA Fund III Limited 450 Wire Free System Fund Limited Fitzrovia International Limited Hanseatic Asset Management LBG Park Heights Limited Pantheon Global Secondary Fund Limited Invesco Leveraged High Yield Fund Limited Pantheon Europe II Fund Limited Saanen Limited Pantheon USA IV Limited Launen Limited Pantheon Asia III Limited Network CPD Limited Lindsell Train Japan (Distributor) Inc. Lindsell Train Japan (Accumulator) Inc Lindsell Train Japan (General Partner) Inc	The Bayard Fund (Euro) Limited Bayard Cayman Limited North American Growth Investments Limited Scottish Asian Investment Co Limited Murray Johnstone (Jersey) Limited Janus Participations Limited Aberdeen Graham Asset Management Limited Aberdeen Asset Managers Jersey Limited Murray Scots Portfolios Limited GIML Services Limited Leveraged Income Fund Limited Jersey Phoenix Trust Limited Pantheon Global PCC Limited Pantheon Secondary Interests Limited Counterpoint Corporate Consultants Limited European Fund Dynamics Limited

	<i>Current directorships</i>	<i>Past directorships</i>
Donald Adamson (continued)	Pantheon Europe Fund III Limited Equity Partnership Investment Co Limited Lindsell Train Global Media (Distributor) Inc Lindsell Train Global Media (Accumulator) Inc Lindsell Train Global Media (General Partner) Inc Pantheon USA Fund V Limited Pantheon Global Secondary Fund II Limited EPIC Reconstruction PLC Pantheon USA Fund VI Limited Pantheon Europe Fund IV Limited	
Ita McArdle	Holidaybreak Insurance Company Limited Holidaybreak Holding Company Limited NGT Insurance Company Limited Womans Aid Limited Haslett Limited Raleigh Insurance Limited NNC Holdings Limited Enhanced Profit Fund Limited Fernbrae Limited Seif-Malabar Limited Benbaun Limited Benbreen Limited Blomidon Investments Limited Derryclare Limited Fallen Limited Still Investments Limited Wimberley Investments Limited Holmaengen Properties Limited ISIS Bond Arbitrage Limited Titon Capital Fund Limited Alpen Fund Limited Chancerygate Limited L P Hedge Fund Limited Multihedge Fund Limited Oxford & Cambridge Investment Management Limited Nielsen Global Limited EFG Hermes Middle East Technology Limited EFG Hermes Jordan Hi-Tech Fund Limited Traded Policies Limited Themis MN Fund Limited	

	<i>Current directorships</i>	<i>Past directorships</i>
Derek Short	Vandy Holdings Limited Mole River Properties Limited Tiverton Properties Limited English and Continental Properties Limited Loan Management Limited Channel Islands Air Search Limited Spring Grove Property Maintenance plc	Axiscross Limited English and Continental Trust Company

Derek Short, in his capacity providing banking and trust management services through English and Continental Trust Company Limited, was a director of a large number of private companies based in Jersey, Guernsey and other offshore financial centres on behalf of his client base, the names of which are not disclosed here.

- (i) No Director has any unspent convictions relating to indictable offences, has been bankrupt or has made or been the subject of any individual voluntary arrangement.
- (j) None of the Directors has been a director of any company at the time of or within twelve months preceding the date of its receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors save for Ita McArdle who, as a director of Simcocks Trust Limited, acts or has acted as a director of a number of companies and routinely some of these are dissolved or wound up. None of the Directors has been a partner of any partnership which has been placed into compulsory liquidation or administration or entered into a partnership voluntary arrangement at the time or within twelve months preceding such event and there have been no receiverships of any asset of any Director or of any partnership of which the Director was a partner at the time of or within twelve months preceding such events.
- (k) None of the Directors has been publicly criticised by any statutory or regulatory authority (including recognised professional bodies) or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company. However, Donald Adamson resigned as a director of Leveraged Income Fund Limited ("LIFL") on 7 April 2000. LIFL became insolvent over two years later. Donald Adamson was interviewed along with directors and former directors of LIFL, Jersey Phoenix Trust Limited, Aberdeen Graham Investment Managers Limited and Aberdeen Asset Managers Jersey Limited by inspectors appointed by the Jersey Financial Services Commission, as part of a wide ranging regulatory investigation in a number of jurisdictions on the split capital investment market sector. No negative or critical outcome has been notified or is anticipated at this date.

4. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company since incorporation and are, or may be, material:

- (a) the Placing Agreement dated 8 July 2004 between the Company (1), the Directors (2) Shore Capital (3) and Shore Capital Stockbrokers Limited (4) pursuant to which, *inter alia*, on Admission taking place on or before 9.00 a.m. on 12 July 2004 (or such later time and/or date as Shore Capital Stockbrokers Limited and the Company may agree, being not later than 31 July 2004) Shore Capital Stockbrokers Limited has agreed to act as broker to the Company and to use reasonable endeavours to procure subscribers for the Placing Shares proposed to be issued by the Company at the Placing Price.

The Placing Agreement provides for the Company to pay all costs and expenses of an incidental nature to the Placing and the application for Admission. No specific fees are payable to Shore Capital and Shore Capital Stockbrokers Limited pursuant to this agreement.

Shore Capital Stockbrokers Limited may terminate the Placing Agreement in specified circumstances prior to Admission.

The Company has given certain warranties and indemnities to Shore Capital Stockbrokers Limited and Shore Capital concerning the Company and the contents of this document. The Directors have given limited warranties, subject to appropriate limitations, to Shore Capital Stockbrokers Limited and Shore Capital concerning the Company and the document. The Directors have also undertaken not to dispose of their Ordinary Shares in the Company for a period of twelve months from Admission.

- (b) The nominated adviser agreement dated 8 July 2004 between the Company (1) Shore Capital (2) and Shore Capital Stockbrokers Limited (3) setting out the terms on which Shore Capital has agreed to act as the Company's nominated adviser for the purposes of the AIM Rules and the terms on which Shore Capital Stockbrokers Limited has agreed to act as the Company's stockbroker, for an annual fee of £10,000. The agreement may be terminated by either party on three months' written notice not to expire before the first anniversary of the date of appointment.
- (c) The engagement letter dated 7 July 2004 between the Company (1) Shore Capital (2) and Shore Capital Stockbrokers Limited (3) whereby Shore Capital is appointed corporate finance adviser and Shore Capital Stockbrokers Limited is appointed broker in relation to the Placing and Admission for a nominal fee.
- (d) The administration agreement dated 6 July 2004 between the Company (1) and Simcocks Trust Limited (2) setting out the terms on which Simcocks Trust Limited will provide company secretarial, administration, income and expenses reporting to the Company.

5. Memorandum and Articles of Association

The Memorandum of Association of the Company provides that the objects of the Company are unrestricted and the Company has, by and subject to the IOM Act, the same rights, powers and privileges as an individual, unless restricted by special resolution and no such restrictions have been imposed or are resolved to be imposed.

The Articles of Association of the Company contain provisions, *inter alia*, to the following effect:

Voting rights

- (a) Shareholders shall have the right to receive notice of, to attend and to vote at all general meetings of the Company. Save as otherwise provided in the Articles, on a show of hands each holder of shares present in person and entitled to vote shall have one vote and upon a poll each such holder who is present in person or by proxy and entitled to vote shall have one vote in respect of every share held by them.
- (b) No member shall be entitled to vote at any general meeting if any calls or other sum presently payable by him in respect of such share remain unpaid.

Restrictions on Ordinary Shares

If a member or any person appearing to be interested in any shares in the Company has been duly served with a notice requiring details of their shareholding in the Company and is in default in supplying to the Company information thereby required within a prescribed period after the service of such notice the Directors may serve on such member or on any such person a notice (a "direction notice") in respect of the shares in relation to which the default occurred ("default shares") directing that the member shall not be entitled to vote at any general meeting or class meeting of the Company. Where the default shares represent at least 0.25 per cent. of the shares the

direction notice may in addition direct that, any dividend or other money which would otherwise be payable on such shares shall be retained by the Company without liability to pay interest and no transfer of any of the shares held by the member in certificated form shall be registered unless the member is not himself in default in supplying the requested information and proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer and other than an “excepted transfer”, i.e:

- (a) a transfer pursuant to acceptance of a takeover offer for the Company;
- (b) a transfer in consequence of a sale made through a recognised investment exchange or any stock exchange outside the United Kingdom on which the Company’s shares are normally traded; or
- (c) a transfer which is shown to the satisfaction of the Board to be made in consequence of a sale of the whole of the beneficial interest in the shares to a person who is unconnected with the member and with any other person appearing to be interested in the shares.

The prescribed period referred to above means 14 days from the date of service of the notice requiring details of the shareholding where the default shares represent at least 0.25 per cent. of the class of shares concerned and 28 days in all other cases.

Variation of class rights and alteration of capital

- (a) Subject to the provisions of the IOM Act and every statute for the time being in force concerning the Company (the “Statutes”), all or any of the rights or privileges attached to any share or class of shares in the Company may be varied or abrogated 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-quarters of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the issued shares of that class. Any separate meeting of the holders of any class of shares shall be convened and conducted in all respects as nearly as possible in the same way as an extraordinary general meeting of the Company and the provisions of the IOM Act and the provisions of the Articles relating to general meetings shall apply *mutatis mutandis*, provided that:
 - (i) the quorum at any such meeting other than an adjourned meeting shall be 2 persons present in person holding or representing by proxy at least one-third in nominal value of the issued shares of the class;
 - (ii) the quorum at any adjourned meeting shall be not less than one person holding shares of the class in question who are present in person or by proxy;
 - (iii) a poll may be demanded by any holder of shares of the class, present in person or by proxy and entitled to vote at the meeting and, on a poll, each member shall have one vote for every share of the class in question of which he is the holder.

The rights or privileges attaching to any class of shares shall not, unless otherwise expressly provided in the rights attaching to such shares, be deemed to be varied or abrogated by the creation or issue of shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company of any of its own shares.

- (b) Subject to the provisions of the statutes the Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, subdivide its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of shares so cancelled.
- (c) Subject to any consent required by law, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account.

- (d) Subject to the provisions of the Statutes and the Articles all unissued shares of the Company are at the disposal of the Directors.
- (e) Subject to the provisions of the Statutes and to any rights attached to any existing shares, any shares may be issued on terms that they are to be redeemed or liable to be redeemed at the option of the Company or the holders on the terms and in the manner provided for by the Articles.
- (f) Subject to the provisions of the Statutes, the Company may purchase its own shares (including any redeemable shares).

Transfer of shares

- (a) A Shareholder may transfer any of his shares by an instrument of transfer in writing in any usual form or in another form approved by the Directors or, without a written instrument (subject to the class of shares becoming a participating security for the purposes of the Regulations), through CREST in accordance with the Regulations. The transferor will remain the holder of the share transferred until the name of the transferee is entered in the Company's register of members in respect of it.
- (b) The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a certificated share or renunciation of a renounceable letter of allotment unless:
 - (i) it is in respect of a share which is fully paid up;
 - (ii) it is in respect of a share upon which the Company has no lien;
 - (iii) it is in favour of a single transferee or not more than four joint transferees;
 - (iv) it is duly stamped (if so required); and
 - (v) it is delivered for registration to the registered office of the Company or such other place as the Board may from time to time determine accompanied by the certificate for the shares to which it relates and such other evidence the Board may reasonably require to show the right of the transferor to make the transfer or renunciation or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so;

the Board may also refuse to register a transfer if in its opinion (and with the concurrence of The Financial Services Authority or such other competent authority) exceptional circumstances so warrant.

- (c) The Board shall refuse to register any transfer of shares which:
 - (i) would be in breach of the law or requirements of a jurisdiction or governmental authority; or
 - (ii) may cause the Company to be classified as an investment company under the United States Investment Companies Act 1940; or
 - (iii) in the opinion of the Board, might result in the Company and/or shareholders incurring any liability to taxation or suffering any other regulatory, pecuniary, legal or material administrative disadvantage that the Company might not otherwise have suffered or incurred;

and for this purpose transfers to United States based entities and Isle of Man residents without the consent of the Board shall be refused.

- (d) The Directors are required to register (and may refuse registration of) a transfer of an uncertificated share (a share in CREST) in accordance with the Regulations.

- (e) The Board shall not refuse to register any transfer or renunciation of shares which are traded on the London Stock Exchange in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis.
- (f) If the Directors refuse to register a share transfer, the Board must send notice of the refusal to the transferee within two months following the delivery of the transfer to the Company. No fee is chargeable by the Company for the registration of a share transfer. The registration of share transfers may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Directors may decide.

Borrowing powers

- (a) The Directors may, save as the Articles otherwise provide, exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital, or any part thereof and, subject to the provisions of the Statutes and the Articles, to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.
- (b) The Directors shall restrict the borrowings of the Company so as to secure that the aggregate principal amount for the time being remaining outstanding of all monies borrowed by the Company and for the time being owing to persons outside the Company shall not at any time, without the previous sanction of an ordinary resolution of the Company in general meeting, exceed four times the aggregate of (aa) the amount paid up on the issued share capital of the Company and (bb) the total of capital and revenue reserves including any share premium account, capital redemption reserve, all as shown in the latest balance sheet of the Company.

Dividends and distributions to shareholders on liquidation

- (a) The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors. Subject to any priority, preference or special rights, all dividends shall be declared and paid according to the amounts paid up on the shares and shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid.
- (b) The Directors may pay such interim dividends as they think fit.
- (c) No dividend or interim dividend shall be paid otherwise than in accordance with the provisions of the Statutes.
- (d) On a liquidation, the liquidator may with the sanction of an extraordinary resolution of the Company and any other sanction required by the Statutes, divide amongst the members in specie or in kind the whole or any part of the assets of the Company and may, for such purpose, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out.
- (e) The Directors may, with the sanction of an ordinary resolution of the Company in general meeting, offer the holders of Ordinary Shares the right to elect to receive new Ordinary Shares credited as fully paid instead of cash in respect of the whole or part of any dividend.
- (f) Any dividend unclaimed for a period of 12 years after it was declared or became due for payment shall be forfeited and shall revert to the Company.

Directors

- (a) Subject to the provisions of the Statutes, the Memorandum of Association of the Company and the Articles and to any directions given by special resolution of the Company (which are consistent with the Statutes), the business of the Company shall be managed by the Board, which may exercise all the powers of the Company, whether relating to the management of the business or not.

- (b) Unless and until the Company in general meeting shall otherwise determine, the number of Directors shall not be less than two. A director shall not be required to hold any shares in the capital of the Company.
- (c) No Director shall be disqualified by his office from entering into any contract, arrangement, transaction or proposal with the Company either in regard to his tenure of any office or place of profit or acting in a professional capacity for the Company or as vendor, purchaser or otherwise. Subject to the provisions of the Statutes and save as therein provided, no such contract, arrangement, transaction or proposal entered into by or on behalf of the Company in which any Director or person connected with him is in any way interested, whether directly or indirectly, shall be liable to be avoided, nor shall any Director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the Company for any profit, remuneration or other benefit realised by any such contract, arrangement, transaction or proposal by reason of such Director holding that office or of the fiduciary relationship thereby established, but such Director shall declare the nature of his interest in accordance with the Statutes.
- (d) A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
 - (i) the giving of any security, guarantee or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or its subsidiary;
 - (ii) the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or its subsidiary for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or its subsidiary for subscription or purchase in which offer he is or may be interested as a participant in the underwriting or sub-underwriting thereof;
 - (iv) another company in which he and any persons connected with him do not to his knowledge hold an interest in shares representing 1 per cent. or more of either any class of equity share capital or the voting rights in such company;
 - (v) an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and
 - (vi) an arrangement concerning insurance which the Company proposes to maintain or purchase for the benefit of the Directors or for the benefit of persons including Directors.
- (e) If any question shall arise at any meeting as to the materiality of a Director's interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the Chairman of the meeting and his ruling in relation to any other Director shall be final and conclusive except in a case where the nature or extent of the interests of the Director concerned have not been fairly disclosed.
- (f) The Directors shall be entitled to such remuneration as the Company may by ordinary resolution determine and unless the resolution provides otherwise. Unless and until the members so resolve, the maximum remuneration to which the Directors shall be entitled shall be £150,000 per annum. Such remuneration shall be divided between the Directors as they shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day.

- (g) Subject to the provisions of the Statutes, the Directors may from time to time appoint one or more of their body to such executive office as they may decide. His appointment shall be automatically determined if he ceases for any cause to be a Director, without prejudice to any claim for damages such Director may have for breach of any service contract between him and the Company. The salary or remuneration of any executive Director shall, subject as provided in any contract, be such as the Directors may from time to time determine.
- (h) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any body corporate in which the Company is interested, such proposals may be divided and considered in relation to each Director separately and in such cases each of the Directors concerned (subject to the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.
- (i) The Directors may entrust to and confer upon a managing director or an executive Director any of the powers and discretions exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers and discretions and may from time to time revoke, withdraw, alter or vary all or any of such powers or discretions.
- (j) Each Director shall have the power at any time to appoint as an alternate Director either (i) another Director or (ii) any other person approved for that purpose by a resolution of the Directors, and at any time to terminate such appointment.
- (k) At each annual general meeting of the Company one third of the Directors shall retire from office. The Directors to retire shall be firstly, any director who wishes to retire and not offer himself for re-election and secondly, those who have been longest in office or, in the case of those who were appointed or re-appointed on the same day, will be (unless they otherwise agree) determined by lot.

6. Litigation

Since incorporation, the Company has not been engaged in, and is not currently engaged in, any litigation or arbitration proceedings which has or may have a significant effect on the financial position of the Company and, so far as the Directors are aware, there are no such proceedings pending or threatened by or against the Company.

7. UK taxation

The statements set out below are intended only as a general guide to certain aspects of current United Kingdom tax law and Inland Revenue practice as at the date of this document and apply only to certain shareholders resident or ordinarily resident for tax purposes in the UK (save where express reference is made to persons resident outside the UK). The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Ordinary Shares. Prospective purchasers of Ordinary Shares are advised to consult their own independent tax advisers concerning the consequences under UK tax law of the acquisition, ownership and disposition of Ordinary Shares.

The statements are not applicable to all categories of shareholders, and in particular are not addressed to (i) shareholders who do not hold their Ordinary Shares as capital assets, (ii) shareholders who own (or are deemed to own) ten per cent. or more of the voting power of the Company, (iii) special classes of shareholders such as dealers in securities, broker-dealers, insurance companies, trustees of certain trusts and investment companies, (iv) shareholders who hold Ordinary Shares as part of hedging or commercial transactions, (v) shareholders who hold Ordinary Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or otherwise), (vi) shareholders who hold Ordinary Shares in a personal equity plan or an individual savings account or (vii) shareholders who are not resident or ordinarily resident in the UK for tax purposes (unless express reference is made to non-UK resident shareholders).

(a) *Residence of the Company for tax purposes*

The Company is registered in the Isle of Man and central management and control will be exercised in the Isle of Man. Consequently, the Company is resident in the Isle of Man for tax purposes. As a tax exempt company, the Company will not be subject to Isle of Man income tax (as detailed in paragraph 8 below).

(b) *Dividends – UK resident shareholders*

A UK resident individual shareholder who receives a dividend from the Company and who is liable to income tax at the starting or basic rate will be subject to tax on the dividend at the rate of ten per cent. of the gross dividend. A UK resident individual shareholder who is liable to income tax at the higher rate will be liable to tax on the dividend at the rate of 32.5 per cent.

A shareholder which is a company resident for tax purposes in the UK and which receives a dividend from the company will be subject to corporation tax on the dividend at the appropriate rate, currently 30 per cent.

(c) *Dividends – non-UK resident shareholders*

A shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. A shareholder who is not resident in the UK (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received from the Company.

(d) *Taxation of capital gains*

A disposal of Ordinary Shares by a shareholder who is either resident or, in the case of individuals, ordinarily resident for tax purposes in the UK may, depending on the shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains. Broadly, shareholders who are not resident or ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised on the disposal of their Ordinary Shares unless such Ordinary Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or for the purpose of such branch or agency. Such shareholders may be subject to foreign taxation on any gain under local law. A shareholder who ceases to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years, and who disposes of the Ordinary Shares during that period of non-residence, may also be liable to UK taxation on chargeable gains (subject to any available exemption or relief) as if, broadly, the disposal was made in such shareholder's year of return to the UK.

For the purposes of taper relief, the qualifying holding period will run from the date when the relevant holding of Ordinary Shares was acquired. Following the Finance Act 1998, indexation is not available to shareholders, other than those subject to corporation tax on chargeable gains. Shareholders subject to corporation tax on chargeable gains remain entitled to indexation allowance but are not entitled to taper relief. The Ordinary Shares will be non-business assets for the purposes of taper relief.

(e) *UK stamp duty and stamp duty reserve tax (“SDRT”)*

No stamp duty or SDRT will be payable by shareholders on the issue of the Ordinary Shares.

The above statements are intended only as a general guide to the current tax position under UK taxation law and practice. A Shareholder or potential investor who is in any doubt as to his or her tax position or is subject to tax in any jurisdiction other than the United Kingdom should consult his or her professional adviser without delay.

8. Isle of Man taxation

In the event of the death of a sole holder of Ordinary Shares, an Isle of Man grant of probate or administration may be required in respect of which certain fees will be payable to the Isle of Man Government.

Capital duty in the Isle of Man is calculated at the rate of 1.5 per cent. and is payable on incorporation or on any increase in the nominal value of the authorised share capital of the Company, ranging from a minimum of £125 for capital up to £2,000, up to a maximum amount of duty of £5,000 for each company.

(a) *Exempt status*

The Company will apply on an annual basis for tax exempt status in the Isle of Man pursuant to the Isle of Man Income Tax (Exempt Companies) Act 1984 (as amended). As at 17 February 2004 the fee is £450 payable on an annual basis in respect of the Company's exempt status. As a tax exempt company the Company will not be subject to Isle of Man income tax. There is no capital gains tax, inheritance tax or stamp duty in the Isle of Man.

The granting of exemption does not affect the liability of a company to deduct and account for income tax under the Income Tax (Instalment Payments) Act 1974.

The Isle of Man is moving towards Zero Standard Tax Rate for businesses scheduled for completion by 1 January 2006.

The Isle of Man Treasury is proposing the introduction of a standard zero rate of income tax for business as a further evolution of its national tax strategy announced in June 2000.

The zero rate proposal has been developed in consultation with private sector representatives and its implementation would be subject to ongoing Tynwald approval.

The Isle of Man's 2004 Budget illustrated the continued financial strength of the economy and the continued progress being made to the zero rate tax regime for trading companies and implementation of the strategy which is scheduled for completion by 1 January 2006.

The corporate tax system will replace the existing income tax system for the taxation of companies. All companies will be subject to zero rate taxation on the same basis with a higher rate for defined regulated businesses, the exempt tax regime will ultimately be abolished in order to meet the international standards being set by both the OECD and the EU.

(b) *Savings directive*

The Code of Conduct is part of a package of EU tax initiatives, the second limb being the proposed Savings Directive relating to automatic exchange of information on cross border interest payments to individual payees. The current draft proposals are conditional upon the introduction of equivalent measures in third party countries such as Switzerland and the USA and the same measures being introduced to the EU dependencies and associated territories including the Isle of Man.

The Isle of Man's position is that it will support all international initiatives to introduce greater fairness and to prevent illegal activities but will do so when other countries do likewise so that there is a level playing field and the Isle of Man economy is not disadvantaged.

It is the intention of the Directors to conduct the affairs of the Company so that the management and control of the Company are not exercised elsewhere other than the Isle of Man and it is not resident in the UK or elsewhere for taxation purposes and so that the Company does not carry on any trade in the UK or elsewhere (whether or not through a permanent establishment situated there). Accordingly, the Company should not be liable for the taxation by the UK or any other jurisdiction on its profits or gains, other than taxation sourced on certain income deriving from sources within that jurisdiction.

9. Working capital

The Directors are of the opinion that, having made due and careful enquiry, and taking into account the net proceeds of the Placing, the working capital available to the Company will, from Admission, be sufficient for its present requirements, that is, for at least the next 12 months following the date of Admission.

10. General

- (a) The accounting reference date of the Company is 31 December.
- (b) The minimum amount which, in the opinion of the Directors, must be raised by the Company under the Placing to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 to the POS Regulations and paragraph 5 of Schedule 4 of the IOM Act is £22 million which will be applied as follows:
 - (i) approximately £145,000 (including VAT) in respect of the expenses of the Placing and Admission;
 - (ii) approximately £155,000 of the proceeds of the Placing receivable by the Company will be used as working capital; and
 - (iii) the balance of the proceeds of the Placing receivable by the Company after payment of the sums described above will be used to subscribe for Units.
- (c) There are no amounts to be provided otherwise than from the proceeds of the Placing in respect of the matters specified in paragraphs 21(a)(i) to (iv) of Schedule I of the POS Regulations and paragraph 5 of Schedule 4 of the IOM Act.
- (d) For the purposes of paragraph 25 of Part IV of Schedule 1 to the POS Regulations and paragraph 5 of Schedule 4 of the IOM Act, the subscription lists for the Placing closed at 4.30 p.m. on 8 July 2004.
- (e) Payment for the Ordinary Shares issued pursuant to the Placing is due on application to Shore Capital Stockbrokers Limited by electronic transfer (in addition to any bank transfer fees).
- (f) Baker Tilly has given and not withdrawn its written consent to the issue of this document with the inclusion of its report and the references to such report and to its name in the form and context in which they appear and accepts responsibility for such report in accordance with paragraph 45(8)(b) of Schedule I to the POS Regulations and have not become aware since the date of its report of any matter affecting the validity of such report at that date.
- (g) Shore Capital has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.
- (h) The total costs and expenses payable by the Company in connection with the Placing and Admission (including London Stock Exchange fees, professional fees, commissions, the costs of printing and the fees payable to the registrars, Shore Capital and for legal and accounting services) are estimated to amount to approximately £145,000 (including VAT).
- (i) Save as disclosed above, there are no trade marks, patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business or profitability.
- (j) Save as disclosed in this document (excluding professional advisers otherwise disclosed in this document and trade suppliers), no person has received, directly or indirectly, from the Company within 12 months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more, calculated by reference to the Placing Price, or any other benefit with a value of £10,000 or more at the date of Admission.
- (k) The financial information for the relevant accounting period set out in the Auditors' and Accountants' Report in Part 4 of this document concerning the Company does not constitute statutory accounts of the Company within the meaning of Section 1 of the IOM Act.

- (l) Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the Placing Letters until such time as the Placing becomes unconditional in all respects. If the Placing does not become unconditional in all respects by 31 July 2004 application monies will be returned to applicants at their risk with interest.
- (m) The existing issued Ordinary Shares and the Placing Shares will be in registered form and will be in uncertificated form in CREST. Definitive share certificates are not expected to be despatched to those Placees who have elected to receive Ordinary Shares in uncertificated form if, and only if, that person is a “system member” (as defined in the CREST Regulations). For those Placees who elect to receive Ordinary Shares to be issued pursuant to the Placing in certificated form, share certificates are expected to be despatched to such applicants by post at their risk within seven days of Admission.
- (n) No temporary documents of title will be issued in respect of the Placing Shares. It is expected that CREST accounts will be credited on 12 July 2004 and it is expected that share certificates will be despatched in respect of the Placing Shares to Placees requesting them by or on 14 July 2004 at the risk of the persons requesting them.
- (o) The City Code on Takeovers and Mergers applies to offers for all listed and unlisted public companies considered by the Panel on Takeovers and Mergers to be resident in the United Kingdom, the Channel Islands or the Isle of Man.
- (p) The Directors confirm that the illustrative financial projections contained in Part 2A of this document have been made after due and careful enquiry by the Directors to establish that the assumptions on which such projections are based are reasonable. The Directors have relied on the DSH Directors and the directors of Dawnay, Day Structured Finance Limited in respect of the information set out in Part 2 of this document.
- (q) Shore Capital confirms it is satisfied that the illustrative financial projections contained in Part 2A of this document have been made after due and careful enquiry by the Directors.

11. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and UK public holidays excepted) at the offices of SJ Berwin at 222 Gray’s Inn Road, London WC1X 8XF for a period of 14 days from the date of Admission:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the accountants’ report set out in Part 4;
- (c) the engagement letters referred to in paragraph 3 of this Part 5;
- (d) the material contracts referred to in paragraph 4 of this Part 5;
- (e) the consent letters referred to in paragraph 10 of this Part 5; and
- (f) this document.

Dated 9 July 2004

