THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. Part II of this document comprises an explanatory statement in compliance with Section 426 of the Companies Act. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, or other independent professional adviser duly authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your Shares, you should send this document, together with the accompanying documents, at once to the purchaser or transferee or to the stockbroker, bank or other agent through or to whom the sale or transfer was effected for transmission to the purchaser or transferee. The distribution of this document in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

RECOMMENDED PROPOSALS FOR THE RESTRUCTURING OF SFI GROUP PLC, THE INTRODUCTION OF A NEW HOLDING COMPANY AND REDUCTION OF CAPITAL THROUGH A SCHEME OF ARRANGEMENT UNDER SECTION 425 OF THE COMPANIES ACT, LAYING OF THE AUDITED ACCOUNTS AND NOTICE OF SHAREHOLDER MEETINGS

This document should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out on pages 6 to 16 of this document and which recommends you to vote in favour of the resolutions to be proposed at the Shareholder Meetings convened by the notices set out in this document. Your attention is also drawn to important financial information of the Company, which is contained within the Audited Accounts for the year ended 31 May 2003, which are enclosed with this document.

Forms of Proxy for use at the Shareholder Meetings are enclosed with this document. Shareholders should complete and return them as soon as possible, but in any event so as to be received by Computershare no later than 48 hours before the time fixed for the relevant meeting. If the white Form of Proxy marked with a grey flash for use at the Court Meeting is not lodged by this time, it may also be handed to the Chairman at the Court Meeting. The return of a completed Form of Proxy will not prevent you from attending the Court Meeting or the Extraordinary General Meeting and voting in person if you so wish and if you are entitled to do so.

The action you are requested to take is set out in detail in paragraph 18 of Part I of this document.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY. NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT SHALL BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

No application has been made for all or any of the SFI Holdings Shares to be admitted to the Official List of the UK Listing Authority or admitted to trading on the London Stock Exchange's market for listed securities, nor has any application been made for all or any of the SFI Holdings Shares to be admitted to trading on any other stock exchange, and no facility to deal all or any SFI Holdings Shares on any other market has been sought. No such application is currently intended. In addition, no such application has been, or will be, made in respect of the Litigation Entitlements.

The SFI Holdings Shares and Litigation Entitlements to be issued in connection with the Scheme have not been, and will not be, registered under the US Securities Act and may not be offered or sold in the United States absent registration under the US Securities Act or an exemption therefrom. If the SFI Holdings Shares and Litigation Entitlements are issued to Shareholders pursuant to the Scheme, they will be issued in reliance upon an exemption from the registration requirements of the US Securities Act and, as a consequence, will not be registered under the securities laws of any state or other jurisdiction of the United States. Shareholders who are affiliates of the Company or SFI Holdings prior to the Scheme Effective Date will be subject to certain US transfer restrictions relating to SFI Holdings Shares received pursuant to the Scheme.

City Financial Associates, which is regulated in the United Kingdom by the FSA, is acting as financial adviser to the Company and for no-one else in connection with the Proposals and will not be responsible to anyone other than the Company for providing the protections afforded to clients of City Financial Associates or for providing advice in relation to the Proposals or any matters referred to herein.

This document contains certain ''forward-looking statements''. Such statements include, but are not limited to, statements regarding financial position, business strategy, plans and objectives of management for future operations. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as ''expect'', ''intend'', ''believe'' or other words of similar meaning. By their nature, forward-looking statements involve known and unknown risks and uncertainties that could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. These forward-looking statements speak only as of the date of this document. Other than as set out in this document, the Company expressly disclaims any obligation to disseminate any updates or revisions to any forward-looking statements contained herein.

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Important financial information on the Company is contained within the Audited Accounts for the year ended 31 May 2003, which are enclosed with this document.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The following is the expected timetable of the principal events connected with the Proposals.

All times shown in this document are London times. The dates and times given are based on the Company's current expectation but depend, amongst other things, on the timetable fixed by the Court, the date upon which the Court sanctions the Scheme and the date upon which the Court confirms the Reduction of Capital, and may be subject to change.

Latest time and date for receipt by Computershare of white Forms of Proxy marked with a grey flash for the Court Meeting[1]	2.30 p.m. on 5 May 2004
Latest time and date for receipt by Computershare of white Forms of Proxy for the Extraordinary General Meeting	2.35 p.m. on 5 May 2004
Court Meeting[1]	2.30 p.m. on 7 May 2004
Extraordinary General Meeting[2]	2.35 p.m. on 7 May 2004
Court Hearing of petition to sanction the Scheme	10.30 a.m. on 27 May 2004
Issue of B Shares in the Company to Banks	12.00[3] p.m. on 27 May 2004
Second Court Hearing of the petition to confirm the Reduction of Capital	2.30[3] p.m. on 27 May 2004
Amendments to the Existing Facilities effective	4.00[3] p.m. on 27 May 2004
Record time and date in order to participate in the Proposals	6.00 p.m. on 27 May 2004
Scheme becomes effective and SFI Holdings becomes the ultimate holding company of the SFI Group	28 May 2004
Despatch of certificates for SFI Holdings Shares and Litigation Certificates	by 11 June 2004

1 Forms of Proxy for the Court Meeting not returned by this time may be handed to the chairman of the Court Meeting at that meeting.
2 To commence at the time fixed or, if later, immediately following the conclusion or adjournment of the Court Meeting.
3 These times are approximate and will depend on, amongst other things, the time the Court Hearing concludes.

KEY QUESTIONS ANSWERED

The Proposals described in this document are complicated and you may have a number of questions. Set out below are a selection of key questions and answers. You should still read the full details of the Proposals and not just rely on the questions and answers.

1. What is being proposed?

The Company is being restructured in order to enable it to continue to trade and to significantly improve its medium to long term prospects of restoring value to shareholders and other stakeholders.

There are four key elements to what is referred to in this document as the ''Proposals'':

- the proposed introduction of SFI Holdings as the ultimate holding company of the SFI Group by way of the Scheme described in this document (the ''Restructuring'');
- the discharge of that part of the amount owing by the Company to the Banks that comprises the Debt Conversion Amount (£83.4 million), in consideration for the issue of B Shares in the Company to the Banks (the ''Debt Conversion'');
- the elimination of the current deficit on profit and loss account reserves of the Company by the cancellation of the amounts standing to the credit of the share premium account and reduction in share capital (as increased by the Debt Conversion) (the ''Reduction of Capital''); and
- the issue of Litigation Entitlements, which relate principally to the Historic Accounting Discrepancies, to Shareholders by way of the Scheme described in this document in part consideration for the cancellation of their Shares (the ''Issue of Litigation Entitlements''). The Litigation Entitlements will entitle Shareholders, in aggregate, to 12.5 per cent. of the Net Litigation Proceeds, less administrative costs.

2. What will be the effect of the Proposals?

If implemented, the effect of the Proposals will be that:

- as a Shareholder, your interest in the Company will be replaced with an equity interest in SFI Holdings which in turn will own all of the shares in the Company. Existing Shareholders will together hold 12.5 per cent. of the issued share capital of SFI Holdings which will initially represent 13.65 per cent. of the voting rights of SFI Holdings;
- SFI Holdings A Shares and SFI Holdings B Shares will be issued to the Banks, which, excluding existing shareholdings, will in aggregate hold 75 per cent. of the equity of SFI Holdings (which will initially represent 72.70 per cent. of the voting rights in SFI Holdings);
- a Management Incentive Scheme will be put in place by means of an employee trust for approximately 60 to 70 employees of the Company, including the Executive Director and the Proposed Director. The employee trust will subscribe for SFI Holdings C Shares representing 12.5 per cent. of the issued share capital of SFI Holdings, which will initially represent 13.65 per cent. of the voting rights in SFI Holdings. This will help to incentivise management and reward them if the Recovery Plan is successful;
- the Company's debt to the Banks will be restructured and reduced by £83.4 million, a reduction of more than half when compared to the current amounts owed by the Company to the Banks. This will enable the Company to continue to trade and provide a more appropriate base from which to rebuild the Company and implement the Recovery Plan. Even after the Proposals are implemented, the Company will still carry the Post-Restructuring Debt (approximately £70 to £80 million) and equity value may not be restored unless the Recovery Plan is successful. If the Recovery Plan is successful the Company will have a much better prospect of being able to restore some value to shareholders in the medium term;
- Shareholders will receive the Litigation Entitlements, which relate principally to the Historic Accounting Discrepancies, from the Company entitling them, in aggregate, to 12.5 per cent. of the Net Litigation Proceeds, less administrative costs; and
- the current deficit on the Company's profit and loss account will be eliminated by means of the Reduction of Capital thereby achieving a balance sheet which better reflects the Company's eroded capital.

3. Why should I support the Proposals?

In the event that the Proposals are not implemented, the Company will not be able to repay the Existing Facilities in accordance with their terms and will only be able to continue to meet its obligations as they fall due with the support of the Banks. The Board believes that in circumstances where the Proposals are not implemented, there is a significant risk that the Company will not continue to enjoy the support of the Banks and, as a result, the Company may be forced to seek the appointment of an administrator or pursue other insolvency options. The Board believes that in such circumstances Shareholders are likely to receive no value for their Shares.

Even after the Proposals are implemented, the Company will still carry a high level of debt and equity value will not be restored by virtue of the Proposals themselves. The Recovery Plan will take time to implement, will carry significant commercial risk and requires a material improvement in profitability before leading to a reduction in debt, an improvement in enterprise value (enterprise value being the value of the business excluding debt) and the potential for restoration of shareholder value.

Restoration of value to all stakeholders in the business can only be achieved with the support of the Banks, which support will be assisted by effecting the Proposals.

4. What do I need to do?

You need to vote. The Proposals can only happen if we receive sufficient support from our Shareholders and relevant approvals from the Court.

In order to vote you will find with this document two Forms of Proxy, one form for each of the Shareholder Meetings referred to below. Please complete, sign and return both of the Forms of Proxy so that Computershare receives them 48 hours before the time fixed for the relevant meeting. The white Form of Proxy marked with a grey flash for use at the Court Meeting may also be handed to the Chairman at the Court Meeting. Returning the Forms of Proxy will not prevent you from attending the meetings and voting in person if you so wish and if you are entitled to do so. Details on how you can return the forms are set out in paragraph 18 of Part I and paragraph 11 of Part II of this document.

In order to obtain the necessary Shareholder approvals, there will be two Shareholder Meetings. The first is a meeting called by an order of the Court to approve the Scheme. This meeting is referred to as the ''Court Meeting'' in this document. The second is an extraordinary general meeting, referred to as the ''Extraordinary General Meeting'' in this document, to approve the Proposals and certain related matters to enable them to be implemented. This meeting is also to receive the Company's Audited Accounts for the year ended 31 May 2003. These meetings will be held from 2.30 p.m. on 7 May 2004 at the Chartered Insurance Institute Insurance Hall, 20 Aldermanbury, London EC2V 7HY. **For the Court to be satisfied that the votes cast constitute a fair representation of the views of our shareholders, it is important that as many votes as possible are cast at the Court Meeting whether in person or by proxy.**

ACTION TO BE TAKEN

Please read the rest of this document and then sign and return your:

- white Form of Proxy marked with a grey flash (Court Meeting)

  AND

- white Form of Proxy (Extraordinary General Meeting)

AS SOON AS POSSIBLE

Computershare has set up an investor enquiry line for purposes of the Proposals:

Telephone: 0870 703 0058.

Whilst enquirers cannot obtain financial advice through the enquiry line, assistance can be given in answering specific enquiries on the Proposals.

SFI House,165 Church Street East,
Woking, Surrey GU21 6HJ

7 April 2004

To the holders of Shares and, for information only, holders of options under the SFI Share Option Schemes

Dear Shareholder

Recommended proposals for the restructuring of SFI Group plc, the introduction of a new holding company and Reduction of Capital through a scheme of arrangement under Section 425 of the Companies Act, laying of the Audited Accounts and notice of Shareholder Meetings

1. Introduction

Following my appointment on 23 June 2003 and on concluding the investigation into the previously announced accounting discrepancies, I wrote to you on 6 October 2003 prior to our annual general meeting. In that letter I updated you on progress since my appointment, announced the result of the investigation into accounting discrepancies discovered the previous November and reported upon discussions with the Company's bankers. Amongst other items, I also explained that neither the Company's current nor projected trading was sufficient to support repayment of existing debt and that the Company continued to trade only with the support of the Banks on the basis of facility waivers.

A restructuring of our finances as set out in this recommended proposal will enable the business to continue to operate and provide a more appropriate base from which to implement our Recovery Plan. This financial restructuring combined with the Recovery Plan has been established so as to create the platform from which management has the opportunity to deliver the necessary improvement in profitability and subsequent recovery in value for all stakeholders.

I am pleased to be able to report that negotiations with the Banks have concluded and that, subject to Court and Shareholder approval, the Banks have agreed to a discharge of part of the amount owing by the Company to the Banks, in consideration for the issue of shares in the Company. The amount of the debt to be discharged is £83.4 million and comprises:

- indebtedness of the Company under the Syndicated Facility and Approved Facilities of £68.6 million;
- rolled up interest and unpaid fees of £10.5 million; and
- amounts owing pursuant to the termination of the Hedging Agreements of £4.3 million.

Amounts owed to the Banks will, in consideration for the issue of the B Shares to the Banks, be reduced by the Debt Conversion Amount and the Existing Facilities will be reduced accordingly to £80 million (being £70 million in principal under the Syndicated Facility and up to £10 million under the Existing Approved Facilities), a reduction of more than half when compared to the current amounts owed by the Company to the Banks.

The main purpose of this document is to explain the background to, and reasons for, the Proposals, to set out the reasons why your Board believes the Proposals are fair and reasonable and to explain why your Board is recommending that you vote in favour of the resolutions to be proposed in order to implement the Proposals. All of this is explained in more detail below and in Part II of this document.

2. Results to 31 May 2003 and earlier accounting restatements

I enclose a copy of the Company's Audited Accounts for the year ended 31 May 2003. The Audited Accounts include restated prior year comparatives for the year ended 31 May 2002, and provide further analysis on four key areas which will in turn, I hope, allow shareholders the opportunity to better understand the current predicament in which the Company finds itself. The four key areas highlighted in the Audited Accounts are:

- operating results for the year ended 31 May 2003;
- exceptional charges arising in the year, including the outcome of the review of the carrying value of fixed assets, which exercise was announced as being in progress in the October Circular;
- analysis of the quantum and nature of the prior year adjustments (incorporating the results of previously announced investigations into accounting discrepancies); and
- the balance sheet position as at 31 May 2003 showing negative shareholder reserves.

Profits before interest, tax, depreciation, amortisation and exceptional items were £9.2 million in the year ended 31 May 2003 compared to a restated profit of £17.9 million in 2002. Before interest and exceptional items, the SFI Group reported an operating loss for the year of £6.7 million compared with a restated operating profit for 2002 of £4.3 million. Turnover in 2003 was £153.2 million, an increase of £9.1 million, reflecting the full year impact of an increase in the number of operating units offset by an 8 per cent. reduction in like-for-like sales performance. However, the impact of lower gross margin arising mainly from increased competition and the effect of price discounting and higher costs, due principally to an increase in the number of operating units, led to a reduction in operating profits.

Net pre-tax exceptional items amounting to £92.1 million (2002: £1.7 million) were charged to the accounts in the year to 31 May 2003. These comprised impairment charges against the carrying value of tangible fixed assets (£58.2 million), intangible fixed assets (£8.8 million), professional fees, bank charges and associated costs (£10.0 million), provision for losses on disposal of fixed assets completed after the year end (£10.5 million), provision for onerous lease costs (£3.1 million), and write off of aborted development costs (£1.7 million), which were offset by profits on disposal of assets (£0.2 million). An exceptional tax credit of £8.3 million was included in the Audited Accounts. Further information as to these exceptional items is included in the financial review section of the Audited Accounts.

Exceptional items will also be significant for the current year ending 31 May 2004 as a result of the costs incurred and to be incurred in relation to the accounting investigations which were concluded in November 2003 and in relation to the development, negotiation and implementation of the Proposals.

On 12 November 2002, the Board informed Shareholders that serious accounting discrepancies had been identified, and that the Company's Shares would be suspended from trading on the London Stock Exchange pending the clarification of its financial position. The Audited Accounts include pre-tax prior year adjustments totalling £61.6 million, of which £58.8 million relates to fundamental accounting errors and £2.8 million to change in accounting policy. Further, of the total pre-tax prior year adjustment, £25.8 million relates to the year to 31 May 2002 and £35.8 million to earlier years. A prior year tax credit amounting to £8.4 million is included in the Audited Accounts.

The balance sheet position as at 31 May 2003 takes full account of the above and reports total fixed assets of £99.2 million offset by net current liabilities (excluding bank debt) of £19.4 million and bank debt of £142.5 million. The Audited Accounts show a deficit of £66.0 million on shareholders' funds and a deficit on profit and loss reserves of £122.3 million. Proposals to address this deficit on reserves by way of the Reduction of Capital are set out below.

The actual level of profitability and the significant deficit on reserves have been taken into account in the context of our discussions with the Banks in formulating the Proposals put to you today.

The accounting discrepancies and restatements described in the Audited Accounts are of a nature and collective size such that the Company has decided to pursue a claim against Horwath Clark Whitehill, the Company's former auditors. Further details of the HCW Claim are set out in paragraph 10 below.

3. Background to and reasons for the Proposals

On 12 November 2002, the Company announced the suspension of its shares from trading on the London Stock Exchange pending the conclusion of strategic and financial reviews and clarification of its financial position, following discovery of serious accounting discrepancies. On 15 April 2003, the Company

announced sales below expectations in a challenging trading environment, as well as a continued inability to clarify its financial position. The Company's shares were delisted with effect from 12 May 2003. In the October Circular, I reported on the conclusion of an investigation into the accounting discrepancies conducted by Simmons & Simmons on behalf of the Board, improvements in financial controls and procedures, the appointment of new auditors and changes in management. I also reported on a number of asset disposals and summarised the Recovery Plan proposed by new management (see paragraph 7 below).

On 12 December 2003, the FSA announced the result of its enquiries into the breach of the Listing Rules caused by the accounting discrepancies referred to above. The FSA concluded that there had been a breach of Listing Rule 9.3A on 30 July 2002, when the Company issued its results, but that there was no evidence to suggest that this was deliberate. The FSA acknowledged that the Company and its advisers had taken a co-operative approach to the investigation. Having considered all the circumstances, including the Company's financial position, the FSA decided not to impose a financial penalty, but to issue a public statement of censure.

As at 7 April 2004, the Company owed approaching £163.4 million to the Banks comprising:

- indebtedness almost fully drawn down against the Syndicated Facility and the Approved Facilities of £148.6 million;
- rolled up interest and fees owing to the Banks of £10.5 million; and
- amounts owing pursuant to cancellation of the Hedging Agreements of £4.3 million.

In addition, there is cash of £5.1 million in a prepayment account arising largely from the recent disposal of assets.

Neither the Company's current nor projected trading is sufficient to service such a high level of debt or support repayment. Accordingly, the Company's equity value has been completely eroded and we have continued to trade only by virtue of the Banks' support.

Against this background, we have been in discussions with the Banks with a view to agreeing a restructuring proposal that will reduce the Company's debt to a level that your Directors believe can be supported by the Company's trading. Having considered various alternatives, the Company and the Banks have ultimately reached agreement on the Proposals as set out below.

An Extraordinary General Meeting of the Company was convened as required by Section 142 of the Companies Act on 7 November 2003 to discuss what steps could be taken when, following revaluation of certain fixed assets, your Directors had reason to believe that the net assets of the Company were likely to be less than half of its called up share capital. Now that the Audited Accounts have been finalised, the figures confirm that the net assets of the Company are less than half of its issued share capital.

The Audited Accounts show a deficit of £66.0 million on shareholders' funds and a deficit on profit and loss reserves of £122.3 million. Your Directors consider that these accumulated losses represent a permanent loss of capital, which should be recognised. In order to rectify the situation and strengthen the Company's balance sheet, the Reduction of Capital is to be implemented as part of the Proposals. Eliminating the deficit in the profit and loss account by means of the Reduction of Capital would also enable the Company to pay dividends to the new holding company, SFI Holdings, in due course subject to the Company having sufficient distributable profits available.

4. The Proposals

The main effects of the Proposals, which are subject to Court and Shareholder approval, are:

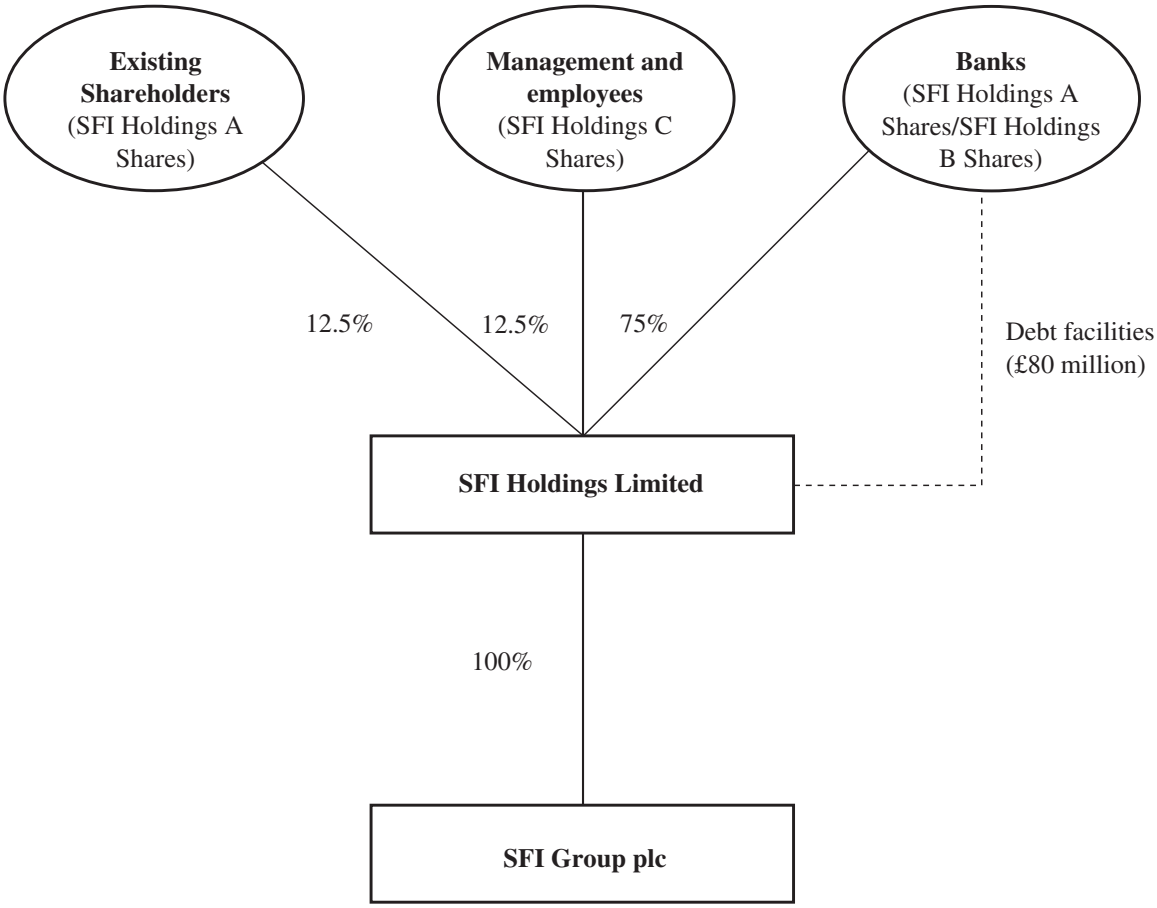
- to allow for the Debt Conversion Amount (£83.4 million) to be discharged in full, in consideration for the issue of B Shares in the Company to the Banks; and
- through the Restructuring (as described below), the Banks and the Shareholders will have their equity interests in the Company cancelled in consideration for equity interests in a new private limited company, SFI Holdings, which will become the direct holding company of the Company and, in the case of the Shareholders, the issue of the Litigation Entitlements by the Company.

As a result of the Debt Conversion, the Company's Existing Facilities will be reduced leaving the Post-Restructuring Debt. Upon the Restructuring becoming effective, and subject to certain conditions, all or part of the sums remaining in the prepayment account (referred to in paragraph 3 above) will be released by the Banks to the Company to enable the settlement of the costs of implementing the Proposals and to provide working capital.

The Restructuring, whereby SFI Holdings is introduced as the ultimate holding company of the SFI Group by way of the Scheme, is at the request of the Banks and is a precondition to the Banks proceeding with the Debt Conversion. The introduction of SFI Holdings will provide for greater flexibility in the context of any potential future sale or flotation.

Elimination of the current deficit on profit and loss account reserves will be achieved by way of the Reduction of Capital which comprises the cancellation of the amounts standing to the credit of the share premium account and a reduction in share capital, each as increased by the Debt Conversion.

The diagram below sets out the anticipated structure and outstanding debt of the SFI Holdings Group after the Proposals become effective and excluding current shareholdings by the Banks:



Following implementation of the Proposals, the approximate equity ownership of SFI Holdings is expected to be as follows:

Shareholder	*Approximate percentage of share capital*	*Approximate initial percentage of voting rights*[1]
Existing Shareholders[2]	12.50%	13.65%
Management and employees	12.50%	13.65%
The Banks[3]	75.00%	72.70%

The equity ownership of the Banks, including existing shareholdings as described in paragraph 3.2 of Part VI of this document, following implementation of the Proposals is expected to be as follows:

Shareholder[4]	*Approximate percentage of share capital*	*Approximate initial percentage of voting rights*[1]
Alliance & Leicester Commercial Bank plc	6.06%	6.62%
Barclays Bank PLC	24.71%	17.77%
Fortis Bank S.A./N.V.	8.00%	8.74%
The Governor and Company of the Bank of Scotland	5.34%	5.83%
HSBC Bank plc	15.15%	16.55%
The Royal Bank of Scotland plc	15.99%	17.46%

The rights attaching to the various classes of SFI Holdings Shares are set out in more detail at paragraph 2 of Part IV of this document.

In addition, in part consideration for the cancellation of the Ordinary Scheme Shares, Shareholders will be issued with Litigation Entitlements, which relate principally to the Historic Accounting Discrepancies, as part of the Scheme. The Litigation Entitlements will entitle Shareholders, in aggregate, to the Relevant Net Litigation Proceeds. This is discussed in more detail in paragraph 10 below.

A detailed description of the Proposals is set out in Part II of this document, and your approval is now being sought to enable the Proposals to be put into effect. The Proposals can only be implemented if they receive sufficient support from Shareholders at the two Shareholder Meetings. If they are implemented, you will be bound by the Proposals whether or not you have voted in favour of them.

5. Reasons to support the Proposals

In the event that the Proposals are not implemented, the Company will not be able to repay the Existing Facilities in accordance with their terms and will only be able to continue to meet its obligations as they fall due with the support of the Banks. The Board believes that in circumstances where the Proposals are not implemented there is a significant risk that the Company will not continue to enjoy the support of the Banks. In such circumstances the Company would be forced to seek the appointment of an administrator or pursue other insolvency options. The Board believes that in such circumstances Shareholders are likely to receive no value for their Shares.

Even after the Proposals are implemented, the Company will still carry a high level of debt and equity value will not be restored by virtue of the Proposals themselves. The Recovery Plan (details of which are set out in paragraph 7 below) will take time to implement, will carry significant commercial risk and requires a material improvement in profitability before leading to a reduction in debt, an improvement in enterprise value (enterprise value being the value of the business excluding debt) and the potential for restoration of shareholder value. If the Recovery Plan is not successful it is possible that banking facilities could be breached. However, your Directors believe that, if the Recovery Plan is successful, the Company will have a much better prospect of being able to restore some value to shareholders in the medium term.

1 The table sets out the approximate initial percentage voting rights in SFI Holdings following implementation of the Proposals. These percentages are subject to change in the event that a holder of non-voting SFI Holdings B Shares elects to convert such shares into voting SFI Holdings A Shares in accordance with the provisions of the SFI Holdings Articles, further details of which are set out in Part II of this document along with details of the number of SFI Holdings A Shares and SFI Holdings B Shares that each Bank is expected to hold immediately following implementation of the Proposals.

2 This includes the existing Shares held by the Banks as described in paragraph 3.2 of Part VI of this document.

3 This excludes existing Shares held by the Banks as described in paragraph 3.2 of Part VI of this document. Following implementation of the Proposals these will represent an additional 0.24 per cent. of the share capital and 0.26 per cent. of the voting rights under the control of the Banks.

4 Shareholdings may be held through nominees and/or subsidiaries as described in paragraph 2.2 of Part II of this document.

After the Restructuring, the Company's Syndicated Facility will extend to the end of May 2006, and it is hoped that, subject to completion of the Proposals and successful implementation of the Recovery Plan, the Company will be able to refinance its indebtedness at that time.

Restoration of value to Shareholders can only be achieved with the support of the Banks, which support will be assisted by effecting the Proposals.

The Board believes that the Proposals achieve the key objectives of:

- securing medium term financial support including a working capital facility from the Banks to enable full implementation of the Recovery Plan;
- deleveraging the balance sheet by reducing debt;
- reducing the burden of interest payments;
- providing an incentive to stakeholders to support the development and rebuilding of the business of the Company;
- improving the prospects for the eventual restoration of equity value; and
- achieving a balance sheet which better reflects the Company's eroded capital.

6. Undertaking to support the Proposals

An irrevocable undertaking has been received from the Trafalgar Catalyst Fund to vote in favour of the Scheme at the Court Meeting and in favour of the Resolutions to be proposed at the Extraordinary General Meeting in respect of its beneficial shareholding amounting to 16,011,907 Shares representing approximately 21.3 per cent. of the existing issued ordinary share capital of the Company.

7. The Recovery Plan

Following my appointment in June 2003, the Board drew up a Recovery Plan for the period to May 2006, full implementation of which is subject to the successful completion of the Proposals. The principal purpose of the Recovery Plan is to rebuild the profitability of the Company over the Recovery Plan Period and facilitate the ultimate restoration of value for the stakeholders. By its nature, the Recovery Plan will impact on almost every area of the business and is designed to deliver sustainable improvements over the medium to long term.

Whilst the Company has a small number of selected pubs and sites identified for potential disposal, the Recovery Plan does not envisage a significant disposal of pubs or brands. The Company's portfolio currently comprises 157 pubs and bars, the majority of which have late licences. Your Directors believe that most of the portfolio is well located and that restoration of value to all stakeholders of the business can best be achieved by improving the trade of the whole portfolio, including currently under-performing and under-invested outlets. The Banks are supportive of the principles of a trading recovery with careful portfolio management as set out in the Recovery Plan.

The main elements of the Recovery Plan, which is designed to produce the necessary improvement in profitability and restoration in value to all stakeholders, are set out below.

7.1 *People*

There have been changes to the management team and its functional alignment including the recent appointment of a new director of buying for the SFI Group and a new director of operations for the Litten Tree division. These changes complement the earlier appointment of a new director of marketing and the re-alignment of responsibilities for property and buying, along with changes to management in the finance function. During the Recovery Plan Period, specific initiatives will be implemented in areas such as recruitment, retention, management development and training, incentivisation and employee communication.

7.2 *Operations*

Following the changes made in the composition of the Board after my arrival last year, direct reporting lines to me were established for the directors of operations of each of the three operating divisions, which comprise "Slug & Lettuce", "Litten Tree" and "Late Night Venues". A central operations function has been set up

and programmes initiated so as to bring an increased focus on operational standards, unit level profitability and profit conversion, working practices and procedures.

7.3 *Customer focus*

With the management changes referred to in paragraph 7.1 above, the Recovery Plan will now support the implementation of an ongoing range of enhancements to the offer in each of our brands. Selective research has already been undertaken to support the realisation of the opportunities that exist in improving the food and drink ranges and customer offer, including pricing strategy and promotional activity. Within this area we also see an opportunity for ongoing brand development and evolution.

7.4 *Portfolio*

Whilst the portfolio is in the main well located, the financial crisis has meant that only limited capital has been available for investment. Over the Recovery Plan Period, selected investments will be made so as both to improve and sustain unit profitability. With the support of the Banks, we have to date re-branded 10 sites and refurbished 13 others and these investments are producing encouraging results. Over the Recovery Plan Period, the portfolio will benefit from an ongoing programme of repair, maintenance, remodelling and refurbishment, along with further site re-brands.

A small number of selected pubs and sites are identified for potential disposal and action is also being taken so as to extinguish ongoing liabilities attaching to nine remaining landbank sites (and three vacant properties).

7.5 *Support functions*

To complement the actions being taken in the business areas set out above, changes are envisaged across many activities within the enabling and support functions. These will be focused on the implementation of enhanced controls, policies and procedures combined with the delivery of cost efficiencies and the generation of improved flows of data and information for decision making.

7.6 *Control environment*

In the past, the Company has undertaken an aggressive growth strategy through acquisition and developments, without the necessary controls and processes being in place. As detailed in the October Circular, the Company has taken a number of significant steps in the period since the identification and announcement of the accounting discrepancies to respond comprehensively to the underlying causes. This has included the appointment of external professional advisers to conduct a full and independent investigation (as referred to above), the discontinuance of inappropriate accounting practices and the implementation of key internal changes to organisational structure, personnel and processes.

In summary, whilst your Directors recognise that the starting point is clearly a challenging one, the range of activities and management actions set out in the Recovery Plan support the overall objective of delivering a sustainable improvement in profitability of the Company.

8. Trading update and outlook

From the Audited Accounts that are enclosed with this document and from paragraph 2 above Shareholders will be aware that the profitability of the Company in the year ended 31 May 2002 was significantly lower than that which was previously reported and the results for the year ended 31 May 2003 were below the restated results for 2002. The current year trading position has therefore started from a much lower base. It has also been adversely impacted by the distressed position that the Company has been in and by challenging market conditions. In addition, throughout the financial year to 31 May 2003 and in the current year, trading has generally been weak across the portfolio.

There are a number of acknowledged challenges facing the sector which have combined to create a very competitive trading environment for high street pubs and bars. Over the summer months these challenges included a general decline in consumer confidence, a reduction in early week and off peak trading, along with discounting and pricing pressures on margin. These factors were combined with excellent summer weather which, whilst good for some businesses with sufficiently large outside trading areas, depressed sales in most of the Company's portfolio which is largely high street based and led to like-for-like declines in sales of a similar magnitude to those reported by our high street competitors. Weak sales levels continued throughout the autumn resulting in the need for the Company to reforecast its internal projections in early December

2003. Christmas trading began to show an improving trend that has continued into the New Year with overall sales levels now broadly in line with revised expectations.

The Company's pub and bar portfolio is almost entirely leasehold resulting in it having a cost base which, to a significant degree, is fixed due to rent payments. With this level of operational gearing, in addition to a high level of debt and interest payments, any reduction in sales and margin significantly impacts on profit. Like-for-like sales declines have been experienced across some but not all of the estate during the year to 31 May 2004. More recently there has been a narrowing of like-for-like sales declines and some positive returns from selective rebrandings and refurbishment.

Prior to my appointment in June 2003, the Company unsuccessfully marketed the Bar Med and Latin businesses for sale and the Directors believe that the resulting uncertainty had a negative impact on their trading performance.

Since the discovery of the serious accounting discrepancies, which were announced in November 2002, the Board has had to manage the business through a period of uncertainty with a difficult cash position. As a result there has not been the ability to invest or take all of the management actions required. The focus of senior management has understandably been diverted away from the day to day operation of the business so as to address the issues arising from the complex accounting investigation and restatement exercise and to complete extensive and complex negotiations with the Company's bankers. Until the Proposals have been effected, full implementation of the Recovery Plan will not be possible.

The Banks have been supportive of the Recovery Plan and allowed capital investment in a number of sites which are beginning to make positive returns on investment.

Results for the year ending 31 May 2004 will reflect the weak trading start to the year, the impact of actual and attempted disposals, like-for-like sales declines across some but not all of the portfolio, fixed rental payments and depreciation. Results at the pre-tax level will also account for interest charges prior to the Debt Conversion and continuing exceptional costs.

9. Changes to the Board

Tim Andrews, the Company's finance director, who joined the Company in July 2002, was responsible for the identification of the serious accounting discrepancies that led to the announcement made by the Company in November 2002. Since then, he has overseen the steps taken to address the causes and consequences of these findings.

Following completion of that exercise, Tim has given notice of his intention to resign from the Board enabling a successor to continue the recovery process into the next stage. He will continue to work with the Company for a period of time after his replacement has been appointed and he has left the Board, focusing his efforts principally on the Litigation.

It is anticipated that two new appointments to the Board will be made in due course.

Edward Lavelle, the Company's current commercial director and company secretary, will join the Board on implementation of the Proposals. Edward, who qualified as a chartered accountant, has corporate finance experience and has held board positions in various companies, was appointed commercial director in November 2002 and company secretary in November 2003.

In addition, a suitably qualified replacement finance director has been identified and is currently in discussions with his employer regarding departure timescale and the date upon which he can join the Board.

10. The HCW Claim and the issue of Litigation Entitlements

The Company appointed Simmons & Simmons (who conducted the investigation into the accounting discrepancies) to advise it on its potential remedies in respect of the accounting discrepancies. On 20 November 2003, Simmons & Simmons advised HCW that a claim was likely to be made against it. HCW has since appointed Barlow Lyde & Gilbert to represent it in relation to the proposed claim.

Based upon the evidence available to them today, your Directors believe that it is in the best interests of the Company to investigate this claim. Matters are at an early stage but now that the Audited Accounts (which include restated prior year comparatives) are available, the claim against HCW can be vigorously pursued. Any decision on whether to pursue the Litigation will be at the sole discretion of the Board.

To succeed in any claim, the Company will need to establish negligence on HCW's behalf and that the negligence caused recoverable loss. Without having gained access to HCW's audit papers to date, the Company has been advised that it would be premature to form a meaningful view on the prospects of establishing negligence. The Company and its advisers now intend to seek to gain access to and review HCW's audit papers. Additional work will also be required to assess the full extent of the potential recoverable damages.

If the Proposals are approved, the Company will issue the Litigation Entitlements to Shareholders as part of the Scheme in part consideration for the cancellation of the Shareholders' Shares. As a result, Shareholders would be entitled (on the basis set out, and subject as provided, below) to an amount equal to the Relevant Net Litigation Proceeds. Shareholders should note that this potential cash entitlement will be in addition to the indirect benefit which may accrue to them from the Litigation by virtue of their continuing interest in SFI Holdings, given that SFI Holdings will become the holding company of the Company following implementation of the Proposals.

If the Proposals are implemented, each Shareholder will receive from the Company Litigation Entitlements representing their entitlement to a proportionate share (above a minimum of £3 per shareholder) of the Relevant Net Litigation Proceeds actually recovered by the Company. The Litigation Entitlements will not be transferable and no application will be made for them to be listed, traded or dealt in on any stock or securities exchange. Litigation Certificates will be issued setting out the number of Litigation Entitlements held by each Shareholder at the same time as Shareholders are issued with certificates for their SFI Holdings A Shares.

Shareholders should be aware that the amount, if any, that they may receive under the Litigation Entitlements is unascertainable because of the uncertainty as to the likelihood, timing and amount of any Litigation Proceeds.

Notwithstanding the issue of the Litigation Entitlements, control of the Litigation will remain with the Board, who will have sole discretion as to how the Litigation is conducted. Decisions on the pursuit of the Litigation will of course be taken in the light of future developments.

Further particulars of the Litigation Entitlements, including restrictions on transferability, are set out in Part V of this document. An analysis of certain taxation consequences arising out of the issue of the Litigation Entitlements is set out in paragraph 8 of Part II of this document.

11. Information on SFI Holdings

SFI Holdings is a private company newly incorporated for the purpose of the Restructuring. SFI Holdings has not traded since incorporation.

Immediately following completion of the Restructuring, it is expected that SFI Holdings will beneficially own 100 per cent. of the issued share capital of the Company. SFI Holdings will become the holding company of the SFI Group and all operations of the SFI Group will remain at the level of the Company.

The SFI Holdings Directors will comprise the current Directors save that Tim Andrews will not be appointed to the board of SFI Holdings and Edward Lavelle, current commercial director of the SFI Group and company secretary of the Company, will be appointed as a director of both the Company and SFI Holdings following successful completion of the Proposals. As and when a new finance director of the Company is appointed, that person will also become a director of SFI Holdings. See paragraph 9 above for further information on Board changes. The names of the Directors and SFI Holdings Directors and the Proposed Director are set out in paragraph 2 of Part VI.

Although the Company would be subject to the City Code in the context of a takeover, SFI Holdings will not be subject to the City Code and Shareholders should be aware that, should the Scheme become effective and their Shares be exchanged for SFI Holdings Shares, one of the consequences will be that they will no longer be afforded the protections of the City Code. However, the SFI Holdings Articles do contain certain provisions which are designed to give some protection to SFI Holdings Shareholders, similar to the protections of Rule 9 of the City Code, whereby a purchaser must make an offer to all SFI Holdings Shareholders if it wishes to acquire 30 per cent. or more of the SFI Holdings Voting Shares. They will also contain a drag along provision whereby if a person holds, or has contracted to acquire, an interest in 50 per cent. or more of the SFI Holdings Shares, such person may serve a compulsory transfer notice on every other SFI Holdings Shareholder requiring them to sell all their SFI Holdings Shares at a price determined in accordance with the SFI Holdings Articles.

In addition, as no application has been made for SFI Holdings Shares to be listed, there will be no requirement for SFI Holdings to comply with the Listing Rules. However, your Board is conscious of the fact that Shareholders will be interested in certain developments and so, where it considers it appropriate, SFI Holdings will notify SFI Holdings Shareholders of developments by updating the Company's website and either writing to them or publishing an announcement in the national press.

SFI Holdings Shares will be issued to SFI Holdings Shareholders in certificated form.

Further details about SFI Holdings and the rights attaching to the SFI Holdings Shares are set out at paragraph 2 of Part IV of this document.

12. Employee share schemes

Optionholders should be aware that under the terms of the respective SFI Share Option Schemes all options will lapse six months after Court Sanction. As the exercise price of all outstanding options significantly exceeds the value of a Share, SFI Holdings will not be making proposals to Optionholders in respect of any options held by them under the SFI Share Option Schemes.

13. No application for trading in SFI Holdings Shares

No application has been made for all or any of the SFI Holdings Shares to be admitted to the Official List of the UK Listing Authority or admitted to trading on the London Stock Exchange's market for listed securities, nor has any application been made for all or any of the SFI Holdings Shares to be admitted to trading on any other stock exchange, and no facility to deal all or any SFI Holdings Shares on any other market has been sought.

Your Directors are aware that Shareholders would like restoration of a market for their shares and your Directors would like to be able to provide such a market by way of an AIM flotation and placing of some or all of the Banks' shares in due course, although, given the present circumstances, your Directors do not consider such a development likely in the foreseeable future and no such application is currently intended.

A number of impediments to restoration of a market in SFI Holdings Shares exist in the short term, including:

- the likely value of such shares if a market was restored today. If the Recovery Plan is successful, there will be a better prospect of being able to restore some value to Shareholders in due course; and
- in order to create a successful market for the SFI Holdings shares at an acceptable price involving a substantial number of SFI Holdings Shares, the Company would like to be able to first demonstrate a positive profit trend and a reduction in debt arising from successful implementation of the Recovery Plan.

Sale of all or a significant part of the Company has been considered as part of the discussions to agree the Proposals. Your Directors believe that Shareholder value will be best served in the short to medium term by improving the profitability of the business rather than attempting to sell all or part of the business in current market conditions as any proceeds of an immediate sale would be required to be used to satisfy existing debt obligations rather than to return value to Shareholders.

14. Management incentivisation

In order to incentivise the management going forward it is proposed that approximately 60 to 70 employees of the Company, including the Executive Director and the Proposed Director, acquire SFI Holdings C Shares and, in certain circumstances and subject to the satisfaction of certain conditions, participate in an enterprise value uplift cash scheme.

Shareholders should be aware, therefore, that the Executive Director has an interest in the Proposals by virtue of the Management Incentive Scheme and the EV Uplift Scheme.

Further details of the Management Incentive Scheme and the EV Uplift Scheme are set out at paragraph 2.4 of Part II of this document.

15. Laying of the Audited Accounts and Extraordinary General Meeting

An Extraordinary General Meeting has been convened for 7 May 2004 at 2.35 p.m. (or as soon after as the Court Meeting concludes or is adjourned) at the Chartered Insurance Institute Insurance Hall,

20 Aldermanbury, London EC2V 7HY to enable Shareholders to receive the Audited Accounts and to consider and, if thought fit, pass the other Resolutions set out in the Notice convening the meeting.

Your attention is drawn to paragraph 10.2 of Part II of this document which sets out a summary of the Resolutions on which you are being asked to vote.

16. Taxation

Your attention is drawn to the information on UK taxation set out in paragraph 8 of Part II of this document. If you are in any doubt as to your tax position, you should consult an appropriate professional adviser.

17. Overseas Shareholders

Overseas Shareholders should refer to paragraph 9 of Part II of this document for information on how the Proposals may affect them.

18. Action to be taken

Notices convening the Court Meeting and the Extraordinary General Meeting at which the approvals for the Proposals will be sought are set out in Part VII of this document. All the meetings will be held at the Chartered Insurance Institute Insurance Hall, 20 Aldermanbury, London EC2V 7HY on 7 May 2004 and the first meeting, the Court Meeting, will begin at 2.30 p.m.

In order for the Proposals to be implemented, it is important that we get your support and your vote at both Shareholder Meetings.

Whether or not you propose to attend the meetings, you are requested to complete and sign the enclosed white Form of Proxy marked with a grey flash for use at the Court Meeting and the enclosed white Form of Proxy for use at the Extraordinary General Meeting. Completed Forms of Proxy should be returned to Computershare, the Pavilions, Bridgwater Road, Bristol BS13 8FB as soon as possible, and in any event so as to be received by Computershare no later than 48 hours before the time appointed for the relevant meeting. A white Form of Proxy marked with a grey flash in respect of the Court Meeting only may also be handed to the chairman of the Court Meeting at that meeting.

19. Recommendation

Your Directors, who have been so advised by City Financial Associates, consider the Proposals fair and reasonable. In providing its advice to the Directors, City Financial Associates has placed reliance on the Directors' commercial assessments of the Proposals.

The Directors unanimously recommend that you vote in favour of the Scheme at the Court Meeting and in favour of the Resolutions to be proposed at the Extraordinary General Meeting as the Directors intend to do in respect of their own beneficial shareholdings, representing 0.04 per cent. of the total issued share capital of the Company.

In the event that the Proposals are not implemented, the Company will only be able to continue to meet its obligations as they fall due with the support of the Banks. The Board believes that in circumstances where the Proposals are not implemented, there is a significant risk that the Company will not continue to enjoy the support of the Banks and, as a result, the Company may be forced to seek the appointment of an administrator or pursue other insolvency options. The Board believes that, in such circumstances, Shareholders are likely to receive no value for their Shares. Accordingly, I would urge you to vote in favour of the Scheme at the Court Meeting and in favour of the Resolutions at the Extraordinary General Meeting.

Yours sincerely

Stuart Lawson
Executive Chairman

PART II

EXPLANATORY STATEMENT
(IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT)

CITY FINANCIAL ASSOCIATES

Pountney Hill House, 6 Laurence Pountney Hill, London EC4R 0BL

7 April 2004

To the holders of Shares and, for information only, to holders of options under the SFI Share Option Schemes

Dear Shareholder

Recommended proposals for the restructuring of SFI Group plc, the introduction of a new holding company and Reduction of Capital through a scheme of arrangement under Section 425 of the Companies Act, laying of the Audited Accounts and notice of Shareholder Meetings

1. Introduction

We are writing to you on behalf of the Company to explain the Proposals.

Your attention is drawn to the Chairman's letter in Part I of this document, which outlines the reasons for the Proposals and contains the recommendation of your Board. The Chairman's letter forms part of this explanatory statement.

The attention of Overseas Shareholders is drawn to paragraph 9 of this Part II.

2. Detailed terms and description of the Proposals

2.1 *The Debt Conversion*

The Company and the Banks have entered into an Investment Agreement pursuant to which they have agreed that, subject to the conditions set out below, the Debt Conversion Amount (£83.4 million) will be discharged in full, in consideration for the issue of B Shares in the Company to the Banks (or their respective nominees and/or subsidiaries set out below). The B Shares so issued will subsequently be exchanged for SFI Holdings Shares pursuant to the Scheme.

The Company and the Banks have also entered into a Support Agreement pursuant to which: (i) certain events of default under the Existing Facilities are waived pending the Restructuring becoming effective; (ii) subject to the issue of the B Shares to the Banks and confirmation by the Court of the Reduction in Capital, the Existing Facilities will be amended and restated to reflect the discharge of the Debt Conversion Amount; and (iii) SFI Holdings, the Company and certain members of the SFI Group will grant new security to secure the indebtedness outstanding under the Existing Facilities following implementation of the Proposals.

At the Extraordinary General Meeting, Shareholders will be asked to approve the Debt Conversion and to authorise the allotment of 450,470,628 new B Shares in the Company to the Banks.

The Debt Conversion will be conditional upon the Court sanctioning the Scheme at the Court Hearing. Immediately following Court Sanction but prior to the Second Court Hearing to confirm the Reduction of Capital, the B Shares will be issued to the Banks and the Debt Conversion Amount will be discharged as a result.

The Scheme will only become effective when office copies of the Court Orders sanctioning the Scheme and confirming the Reduction of Capital are registered by the Registrar of Companies.

Subject to the satisfaction of the condition set out in paragraph 2.2(c)(iii) of this Part II, the Banks and, where applicable, their subsidiaries, have agreed to appear by Counsel at the Court Hearing and to submit to be bound thereby.

Upon issue of the B Shares to the Banks, and confirmation by the Court of the Reduction of Capital, the Existing Facilities will be amended pursuant to the terms of the Support Agreement. The amendments to the Existing Facilities will, amongst other things, have the following effects:

- the existing indebtedness of the Company pursuant to the term loans under the Syndicated Facility will be reduced to £70 million;
- the bilateral lender (Barclays Bank PLC) will continue to make available a £10 million overdraft facility to the Company pursuant to the Existing Approved Facilities (as amended); and
- all or part of the amounts standing to the credit of the prepayment account at that time will, subject to certain conditions, be released by the Banks to the Company to enable settlement of the costs of implementing the Proposals and to provide working capital.

2.2 ***The Scheme***

As part of the Proposals, SFI Holdings is being introduced as the new holding company of the Company. This is to be implemented pursuant to the Scheme, which is a Court approved process under Section 425 of the Companies Act. Following Shareholder approval of the Proposals, the Company will seek Court sanction of the Scheme and confirmation of the Reduction of Capital.

(a) **Summary of the Scheme**

As a result of the Debt Conversion described in paragraph 2.1 of this Part II, the amounts standing to the credit of the Company's share capital and share premium will increase by £83.4 million.

Under the Scheme the Scheme Shares, comprising the entire issued share capital except for 10 Shares held by SFI Holdings (in respect of which SFI Holdings will not issue any shares under the Scheme), and the sum credited to the share premium account, including share premium arising on the Debt Conversion, will be cancelled and, in consideration of the cancellation of their shares, the holders of the Scheme Shares will be allotted SFI Holdings Shares credited as fully paid and Litigation Entitlements on the following basis:

For every Share held by existing Shareholders	**One SFI Holdings A Share and One Litigation Entitlement**
For the B Shares issued to the Banks as a result of the Debt Conversion	**The allocation of SFI Holdings A Shares and SFI Holdings B Shares as set out at paragraph 2.2(b) below**

Upon the cancellation of the share capital and share premium, a credit will arise in the books of account of the Company which will be applied in paying up in full at par new Shares to be issued, credited as fully paid up, to SFI Holdings, in consideration for the issue of SFI Holdings Shares and the Litigation Entitlements to the Scheme Shareholders. The remaining credit will be used to eliminate the deficit on the Company's profit and loss account reserves.

As a result, SFI Holdings will become the holding company of the SFI Group and immediately following the Scheme Effective Date all of its shares will be owned by Scheme Shareholders. At present, SFI Holdings is wholly owned by the Banks.

In order to sanction the Reduction of Capital, the Court will need to be satisfied that the interests of the Company's creditors will not be prejudiced as a result of the Reduction of Capital becoming effective. If the amount of the Reduction of Capital exceeds the deficit on the Company's profit and loss account as at the date on which the Reduction of Capital becomes effective, the Company may have to undertake to the Court not to treat the excess as distributable until certain conditions are met.

(b) **The allocation of SFI Holdings A Shares and SFI Holdings B Shares to the Banks**

Under the Scheme, the Banks (or, where appropriate, their nominees who have been issued B Shares) as the holders of B Shares shall be entitled to the allocation of SFI Holdings A Shares and SFI Holdings B Shares set out below:

Name	*SFI Holdings A Shares*	*SFI Holdings B Shares*
Evansgrove Limited (a subsidiary of Alliance & Leicester Commercial Bank plc)	36,426,690	0
Barclays Bank PLC	96,250,000	50,655,878
Fortis Bank S.A./N.V.	48,063,610	0
The Governor and Company of the Bank of Scotland	32,055,969	0
HSBC Bank plc	91,005,693	0
West Register Investments Limited (a subsidiary of The Royal Bank of Scotland plc)	96,012,788	0

(c) **Conditions of the Scheme**

(i) The implementation of the Scheme is conditional upon the following:

- the approval of the Scheme by a majority in number representing three fourths in value of the Independent Shareholders present and voting either in person or by proxy at the Court Meeting;
- the passing of the resolution numbered 1 set out in the notice of the Extraordinary General Meeting (relating to the Proposals);
- the sanction of the Scheme and the confirmation of the Reduction of Capital of the Company by the Court; and
- the registration by the Registrar of Companies of office copies of the Court Orders sanctioning the Scheme and confirming the Reduction of Capital.

(ii) If the Scheme has not become effective by 28 August 2004 (or such later date as the Company and SFI Holdings may agree and the Court may allow), it will lapse and none of the Proposals will proceed.

(iii) The Scheme is also conditional upon the Company and certain of its subsidiaries complying with their obligations under the Support Agreement and the Support Agreement not being terminated prior to Court Sanction. Accordingly, the necessary action to make the Scheme effective will not be taken unless the Company and certain of its subsidiaries have complied with their obligations under the Support Agreement and the Support Agreement remains in full force and effect prior to Court Sanction.

Prior to the date of the Court hearing to sanction the Scheme, the Support Agreement may be terminated by the agent for the Banks by written notice to the Company following the occurrence of one of the following events:

- an event of default under the Existing Facilities which is continuing and has not been waived by the Banks;
- a breach of or a failure by the company or a subsidiary of the company which is a party to the Support Agreement to comply with its obligations under the Support Agreement;
- if the agent for the Banks has reasonable grounds to believe that the Restructuring cannot be carried out in accordance with a timetable agreed between the Company and the Banks; or
- the agent for the Banks has reasonable grounds to believe, following discussions with The Panel on Takeovers and Mergers and the Company, that the Banks (or any of them) would be required to make a mandatory offer for Shares in the Company in connection with the Restructuring.

Provided that the Company has complied with its obligation to deliver certain documents and to meet certain conditions in accordance with the Support Agreement, the agent for the Banks may not give a notice to the Company to terminate the Support Agreement on and from the date of the Court Hearing to sanction the Scheme unless the Court does not sanction the Scheme on that

date (or the Court Hearing is adjourned to a date later than that specified in the timetable agreed between the Company and the Banks).

(d) **Modifications**

The Scheme contains a provision for the Company and SFI Holdings to consent on behalf of all persons concerned to any modification of or addition to the Scheme or to any conditions which the Court may approve or impose.

(e) **Text of the Scheme**

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

2.3 *Rights of the SFI Holdings A Shares and SFI Holdings B Shares*

Your attention is drawn to paragraph 2 of Part IV of this document which sets out the rights attaching to the SFI Holdings A Shares and SFI Holdings B Shares.

2.4 *Management and employee incentivisation*

An employee benefit trust will be set up and will subscribe for SFI Holdings C Shares representing 12.5 per cent. of the new issued share capital of SFI Holdings (calculated taking into account the issue of the SFI Holdings C Shares). SFI Holdings C Shares will be issued to the employee trust contemporaneously with the issue of the SFI Holdings A Shares to the Banks and the Shareholders and the SFI Holdings B Shares to the Banks. Approximately 60 to 70 employees, including the Executive Director and the Proposed Director, will be invited to participate in the Management Incentive Scheme following implementation of the Proposals.

The Executive Director and the Proposed Director will be invited to acquire SFI Holdings C Shares pursuant to the Management Incentive Scheme in the following proportions:

Name	*Number of SFI Holdings C Shares*	*Percentage of SFI Holdings C Shares*	*Percentage of SFI Holdings Shares*
Stuart Lawson	18,769,610	25%	3.13%
Edward Lavelle	7,507,844	10%	1.25%

In addition, the proposed finance director referred to in paragraph 9 of Part I of this document will be invited to acquire 7,507,844 SFI Holdings C Shares (equal to 10 per cent. of the total SFI Holdings C Shares or 1.25 per cent. of the SFI Holdings Shares) pursuant to the Management Incentive Scheme following his appointment. The SFI Holdings C Shares will enjoy the same voting and economic rights as SFI Holdings A Shares but have certain specific rights and restrictions attached. Further details of the rights and restrictions attaching to the SFI Holdings C Shares are set in paragraph 2 of Part IV of this document.

As described above, following implementation of the Proposals, the Company will still carry a high level of debt and equity value will not be restored by virtue of the Proposals themselves. Therefore the SFI Holdings C Shares acquired under the Management Incentive Scheme will be of little or no real economic value to the Executive Director, the Proposed Director or employees unless the Recovery Plan is successfully implemented and leads to an improvement in enterprise value and, ultimately, the restoration of shareholder value. The Management Incentive Scheme has therefore been designed to incentivise management to achieve the objective of recovery and restoration of equity value for Shareholders.

Employees who are holders of SFI Holdings C Shares will also participate in the EV Uplift Scheme. The EV Uplift Scheme is designed to reward participants if, by the time of a sale or flotation of SFI Holdings, there has been an increase in the value of the business of the SFI Holdings Group (excluding debt) from a base value of £50 million but that increase has not been sufficient to give substantial value to SFI Holdings C Shares. In such circumstances, cash payments will be made under the EV Uplift Scheme equal to 5 per cent. of the growth in the value of the business over a base value of £50 million but reduced by an amount equal to the value of the SFI Holdings C Shares at that time. Payments would be made *pro rata* to participants' holdings of SFI Holdings C Shares. If the value of the SFI Holdings C Shares exceeds the amount which would be paid under the EV Uplift Scheme then no payments will be made.

The EV Uplift Scheme may also pay out where the Company or the Company's business is sold. SFI Holdings C Shareholders who leave employment as "good leavers" may also be entitled to payment under the EV Uplift Scheme.

The implementation of the Management Incentive Scheme and the EV Uplift Scheme do not require specific consent of Shareholders but are conditional upon the Proposals becoming effective.

3. Timetable

The Court Hearing to sanction the Scheme is expected to be held on 27 May 2004. Independent Shareholders will have the right to attend the Court Hearing to appear in person or be represented by Counsel.

Assuming that the conditions set out at paragraph 2.2(c) above are satisfied or waived (where applicable), the Scheme is expected to become effective on 28 May 2004 when office copies of the Court Orders sanctioning the Scheme and confirming the Reduction of Capital are expected to be registered by the Registrar of Companies.

4. Directors' interests

Details of the Directors and their interests and current service contracts are set out in paragraphs 3 and 4 of Part VI of this document.

Save as otherwise disclosed in this document, particularly in paragraph 2.4 of this Part II, the effect of the Scheme on the interests of the Directors will not differ from its effect on the like interests of other Scheme Shareholders, except that the Directors will be subject to certain restrictions under US securities laws on the resale of SFI Holdings Shares received by them pursuant to the Scheme by reason of them being regarded for the purposes of such laws as affiliates of the Company and, in the case of Directors appointed as SFI Holdings Directors, affiliates of that entity. These restrictions are summarised under the heading ''US Securities Laws'' in paragraph 9.1 below.

5. Borrowing powers under the Articles

At the annual general meeting of the Company held on 7 November 2003, the Shareholders voted to suspend Regulation 99(2) of the Articles for the reasons set out in the October Circular. The Company now wishes to seek Shareholders' approval of the reinstatement of and amendment to Regulation 99(2) in order to ensure that the Company has adequate borrowing powers following implementation of the Proposals. The Company is seeking powers to borrow up to four times the aggregate of Adjusted Capital and Reserves (as defined in the Articles) or £100 million, whichever is greater. The resolution proposed is set out as Resolution 2 in the Notice convening the Extraordinary General Meeting. The reinstatement of and amendment to Regulation 99(2) will, if approved, come into effect upon confirmation by the Court of the Reduction of Capital and the amendments to the Existing Facilities becoming effective.

6. Employee share schemes

Optionholders should be aware that under the terms of the respective SFI Share Option Schemes all options will lapse six months after Court Sanction. As the exercise price of all outstanding options significantly exceeds the value of a Share, SFI Holdings will not be making proposals to Optionholders in respect of any options held by them under the SFI Share Option Schemes.

7. Information on the SFI Group

The Company was incorporated as a public limited company on 12 September 1985 and after expanding by acquisitions was admitted to trading on AIM in June 1995. The Company transferred its listing in September 1997 to the London Stock Exchange.

The Company's listing on the London Stock Exchange was suspended in November 2002, and cancelled with effect from 12 May 2003. The reasons behind the cancellation are discussed in more detail above and in the October Circular.

The Company manages 157 large pubs under such brands as Slug & Lettuce, Bar Med and Litten Tree, which pubs are typically located in prime high street entertainment locations.

The current financial trading position of the Company is commented on at paragraph 8 of Part I of this document. Your attention is also drawn to the Audited Accounts, which accompany this document.

8. Certain taxation consequences of the Scheme for the Shareholders

A general summary of the UK tax consequences of the Scheme is set out below.

All Shareholders are advised to consult their own professional advisers about the tax consequences for them of the Proposals.

The comments below are based on existing UK law and what is understood to be current Inland Revenue practice, both of which are subject to change at any time, possibly with retroactive effect. They are intended only as a general guide and apply only to shareholders who are resident or ordinarily resident for tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), who hold their Shares as an investment and who are the absolute beneficial owners of such shares. The taxation position of certain shareholders who are subject to special rules, such as dealers in securities, broker-dealers, insurance companies and collective investment schemes, is not considered.

Persons who are in any doubt about their tax position, or who are resident for tax purposes or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own professional advisers.

8.1 *Taxation of chargeable gains ("CGT")*

The Scheme will not constitute a reorganisation of the Company's share capital for CGT purposes. Accordingly, Shareholders should be treated as disposing of their Shares for an amount equal to the aggregate market value of the SFI Holdings A Shares and Litigation Entitlements that they receive pursuant to the Scheme. Shareholders may, therefore, realise an allowable loss or a chargeable gain on disposal of their Shares pursuant to the Scheme depending on their individual circumstances and their entitlement to any exemption or relief from CGT.

Any future receipt of Relevant Net Litigation Proceeds under the Litigation Entitlements by the Shareholders should also constitute a CGT disposal at the time of such receipt. Shareholders should, therefore, subject to their individual circumstances and entitlement to any exemption or relief from CGT, realise either a chargeable gain or an allowable loss at that time by reference to the difference between the amount received and the market value of their Litigation Entitlements at the time of the Scheme.

8.2 *Dividends*

Dividends paid on the SFI Holdings A Shares will be subject to tax on the same basis as dividends paid on the existing Shares.

8.3 *Stamp duty and stamp duty reserve tax*

No UK stamp duty or stamp duty reserve tax will be payable by Shareholders in relation to the allotment and issue to them of SFI Holdings A Shares or of the Litigation Entitlements pursuant to the Scheme.

8.4 *PEPs and ISAs*

The SFI Holdings A Shares will not be eligible for inclusion in the stocks and shares component of an ISA or in a PEP.

9. Overseas Shareholders

The implications of the Proposals for Overseas Shareholders may be affected by the laws of the relevant jurisdiction. Overseas Shareholders should inform themselves about and observe all applicable legal requirements. This document has been prepared for the purposes of complying with English law and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

It is the responsibility of each Overseas Shareholder to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection with the Proposals, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

A provision is included in the Scheme so that if, in respect of any Overseas Shareholder or any Shareholder who SFI Holdings reasonably believes to be an Overseas Shareholder, SFI Holdings is advised that the allotment and/or issue of SFI Holdings Shares pursuant to the Scheme would or might infringe the laws of any jurisdiction outside the United Kingdom, or would or might require SFI Holdings to comply with any governmental or other consent or any registration, filing or other formality with which SFI Holdings is unable to comply or compliance with which SFI Holdings regards as unduly onerous, SFI Holdings may in its sole discretion, either: (i) determine that such SFI Holdings Shares shall not be allotted or issued to such holder but shall instead be allotted and issued to a nominee appointed by SFI Holdings as trustee for such holder on terms that the nominee shall, as soon as practicable following the Scheme Effective Date, sell the SFI Holdings Shares so allotted and issued; or (ii) determine that such SFI Holdings Shares shall be sold, in which event the SFI Holdings Shares shall be issued to such holder and SFI Holdings shall appoint a person

to act for such purpose and such person shall be authorised on behalf of such holder to procure that any shares in respect of which SFI Holdings has made such determination shall, as soon as practicable following the Scheme Effective Date, be sold. The Scheme contains an equivalent provision in respect of Litigation Entitlements.

Overseas Shareholders should consult their own legal advisers with respect to the legal consequences of the Proposals in their particular circumstances.

9.1 *US securities laws*

If the SFI Holdings Shares and Litigation Entitlements are issued to Scheme Shareholders pursuant to the Scheme, they will be issued in reliance on the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof and, as a consequence, will not be registered thereunder or under the securities law of any state or other jurisdiction of the United States.

Under US federal securities laws, a Shareholder who is deemed to be an affiliate of the Company or SFI Holdings before completion of the Scheme may not resell SFI Holdings Shares received pursuant to the Scheme without registration under the US Securities Act, except pursuant to the applicable resale provisions of Rule 145(d) promulgated under the US Securities Act or another applicable exemption from the registration requirements of the US Securities Act or in a transaction not subject to such requirements. Whether a person is an affiliate of a company for such purposes depends upon the circumstances, but affiliates of a company can include certain officers and directors and significant shareholders. The Litigation Entitlements are not transferable.

For the purpose of qualifying for the exemption from the registration requirements of the US Securities Act (as described above), the Company will advise the Court that its sanctioning of the Scheme will be relied upon by the Company and SFI Holdings as an approval of the Scheme following a hearing on its fairness to Shareholders, at which hearing all Shareholders are entitled to attend in person or through a legal representative to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all Shareholders.

The SFI Holdings Shares and Litigation Entitlements have not been approved or disapproved by the SEC or any US state securities commission, nor has the SEC or any US state securities commission passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

10. Meetings and consents

The implementation of the Proposals requires the approval of the Scheme by the Independent Shareholders at the Court Meeting and the passing by Shareholders of special resolution 1 set out in the notice convening the Extraordinary General Meeting.

Unless both of these approvals are obtained the Proposals will not be put in place.

Notices of both the Court Meeting and the Extraordinary General Meeting are set out in Part VII of this document.

10.1 *The Court Meeting*

The Court Meeting has been convened for 2.30 p.m. on 7 May 2004 at the Chartered Insurance Institute Insurance Hall, 20 Aldermanbury, London EC2V 7HY pursuant to an Order of the Court, to enable Independent Shareholders to consider and, if thought fit, approve the Scheme.

At the Court Meeting, voting will be by poll and each Independent Shareholder entitled to attend and who is present in person or by proxy will be entitled to one vote for each Share held. The statutory majority required to approve the Scheme at the Court Meeting is a majority in number of the Independent Shareholders present and voting in person or by proxy, representing at least three-fourths in value of the Shares held by them.

In order that the Court can be satisfied that the votes cast constitute a fair representation of the view of the Independent Shareholders, it is important that as many votes as possible are cast at the Court Meeting, whether in person or by proxy. Independent Shareholders are therefore urged to take the action referred to in paragraph 11 below.

If the Scheme is approved and becomes effective, it will be binding on all Shareholders irrespective of whether they attended the Court Meeting or the way in which they voted.

10.2 ***Extraordinary General Meeting***

The Extraordinary General Meeting has also been convened for 7 May 2004 (the same date as the Court Meeting) at 2.35 p.m. (or as soon after as the Court Meeting concludes or is adjourned) at the Chartered Insurance Institute Insurance Hall, 20 Aldermanbury, London EC2V 7HY to enable Shareholders to consider and, if thought fit, pass the resolutions set out in the Notice convening the Extraordinary General Meeting.

The purpose of the resolutions can be summarised as follows:

Resolution 1: To approve:

- the introduction of SFI Holdings as the new holding company of the Company, authorise the Reduction of Capital and the allotment and issue of Shares to SFI Holdings pursuant to the Scheme, make amendments to the Articles (to ensure that any Shares and B Shares issued after the Extraordinary General Meeting which are not issued subject to, and bound by the terms of, the Scheme can be compulsorily acquired by SFI Holdings) and authorise the increase in share capital in the Company and the allotment and issue of 10 Shares to SFI Holdings in advance of the Scheme;
- the Debt Conversion and authorise the allotment of the B Shares to the Banks; and
- the reinstatement of Regulation 99(2) of the Articles and its amendment by limiting the borrowing powers of the Company to four times the aggregate of the Adjusted Capital and Reserves (as defined in the Articles) or £100 million, whichever is the greater.

Resolution 2: To receive the Audited Accounts.

The majority required for the passing of resolution 1 is not less than three-fourths of the votes cast. A simple majority is required for the passing of resolution 2. On a show of hands each Shareholder present in person or by proxy will have one vote and on a poll each Shareholder present in person or by proxy will have one vote for each Share held.

11. Action to be taken

Forms of Proxy are enclosed as follows:

(a) for the Court Meeting, a white Form of Proxy marked with a grey flash; and

(b) for the Extraordinary General Meeting, a white Form of Proxy.

Whether or not you propose to attend the meetings in person, you are urged to complete and return both Forms of Proxy. The Forms of Proxy must be received by Computershare, The Pavilions, Bridgwater Road, Bristol BS13 8FB no later than 2:30 p.m. on 5 May 2004 for the Court Meeting and 2.35 p.m. on 5 May 2004 for the Extraordinary General Meeting.

The white Form of Proxy marked with a grey flash in respect of the Court Meeting may also be handed to the Chairman at the Court Meeting. However, in the case of the Extraordinary General Meeting, unless the white Form of Proxy is lodged so as to be received at least 48 hours before the meeting or adjourned meeting, it will be invalid.

Returning a Form of Proxy will not prevent you from attending either the Court Meeting or the Extraordinary General Meeting and voting in person should you decide and be entitled to do so.

12. Further information

Your attention is drawn to the letter from your Chairman in Part I of this document and the Scheme set out in Part III. Further information regarding SFI Holdings and the Company is set out in Parts IV and VI.

Yours faithfully

John Wilkes
For and on behalf of
City Financial Associates Limited

PART III

THE SCHEME OF ARRANGEMENT

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

No. 2329 of 2004

IN THE MATTER OF SFI GROUP PLC

- and -

IN THE MATTER OF THE COMPANIES ACT 1985

SCHEME OF ARRANGEMENT
(under Section 425 of the Companies Act 1985)

BETWEEN

SFI GROUP PLC

AND

THE HOLDERS OF ITS SCHEME SHARES
(as hereinafter defined)

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions bear the following meanings:

"B Scheme Share"	a Scheme Share which is a B Share
"B Shares"	Class B shares of 10p each in the capital of the Company
"Banks"	Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc, Fortis Bank S.A./N.V., Alliance & Leicester Commercial Bank plc and The Governor and Company of the Bank of Scotland
"business day"	a day (excluding Saturday or Sunday) on which banks generally in the City of London are open for the transaction of normal banking business
"certificated" or "in certificated form"	not in uncertificated form
"Circular"	the document dated 7 April 2004 sent by the Company to the holders of Shares of which this Scheme forms part
"Company"	SFI Group plc, incorporated in England and Wales with registered number 1946949
"Court"	the High Court of Justice in England and Wales
"Court meeting"	the meeting of the Independent Shareholders summoned by order of the Court pursuant to Section 425 of the Companies Act 1985 to consider and, if thought fit, approve this Scheme, including any adjournment thereof

"CREST"	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo Limited in accordance with the Uncertificated Securities Regulations 2001
"Debt Conversion"	the discharge of the Debt Conversion Amount (as defined in the Circular) in consideration of the issue of B Shares in the Company to the Banks
"Extraordinary General Meeting"	the extraordinary general meeting of the Company, notice of which is set out in the Circular, including any adjournment thereof
"Group Companies"	in respect of any company, its subsidiaries and parent companies, and any subsidiaries of its parent companies
"holder"	a registered holder and includes a person entitled by transmission
"Independent Shareholders"	a holder of Shares not all of which are beneficially owned by any Bank or any of their respective Group Companies
"Litigation Certificate"	a certificate to be issued by the Company to a Litigation Entitlement Holder setting out the number of Litigation Entitlements held by the Litigation Entitlement Holder
"Litigation Entitlement"	an entitlement, subject to the terms of the Litigation Entitlement Instrument, to an amount equal to the Litigation Entitlement Amount (as defined in the Circular) multiplied by the Relevant Net Litigation Proceeds (as defined in the Circular)
"Litigation Entitlement Holder"	a holder of Litigation Entitlements
"Litigation Entitlement Instrument"	the instrument constituting the Litigation Entitlements executed as a deed by the Company prior to the Court Hearing (as defined in the Circular)
"members"	members of the Company on the register of members at any relevant date
"Ordinary Scheme Share"	a Scheme Share which is a Share
"Record Time"	6.00 p.m. on the business day before the Scheme Effective Date
"Reduction of Capital"	the reduction of capital and the cancellation of the share premium account of the Company details of which are set out in Clause 1
"Scheme"	this scheme of arrangement in its present form or with or subject to any modification, addition or condition approved or imposed by the Court
"Scheme Effective Date"	the date on which this Scheme becomes effective in accordance with Clause 6
"Scheme Shares"	(i) the Shares and B Shares in issue at the date of this Scheme; (ii) any Shares and B Shares issued after the date of this Scheme and before the Voting Record Time; (iii) any Shares and B Shares issued at or after the Voting Record Time and before 6.00 p.m. on the day before the date on which the order of the Court is made sanctioning this Scheme in respect of which the original or any subsequent holders thereof are, or shall by such time have agreed in writing to be, bound by this Scheme; and (iv) any B Shares issued at or after 6.00 p.m. on the day before the date on which the order of the Court is made sanctioning this Scheme and before the order of the Court is made confirming the Reduction of Capital in respect of which the original or any subsequent holders thereof are, or shall by such time have agreed in writing to be, bound by this Scheme, in each case other than any Shares beneficially owned by SFI Holdings

''SFI Holdings''	SFI Holdings Limited, incorporated in England and Wales with registered number 5095347
''SFI Holdings A Shares''	Class A Shares of 0.0167 pence each in the capital of SFI Holdings
''SFI Holdings B Shares''	Class B Shares of 0.0167 pence each in the capital of SFI Holdings
''SFI Holdings Shares''	SFI Holdings A Shares and SFI Holdings B Shares, or either of them as the context requires
''Shares''	ordinary shares of 25p each in the capital of the Company
''uncertificated'' or ''in uncertificated form''	recorded on the relevant register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
''Voting Record Time''	6.00 p.m. on the day which is two days before the date of the Court meeting or, if the Court meeting is adjourned, 6.00 p.m. on the day which is two days before the date set for any such adjourned meeting

and references to Clauses are to Clauses of this Scheme.

(B) The authorised share capital of the Company at the date of this Scheme is £25,000,000 divided into 100,000,000 Shares of 25p each, of which 75,078,438 have been issued and are credited as fully paid and the remainder are unissued. It is proposed that, at the Extraordinary General Meeting, the authorised share capital of the Company be increased by £90,094,125.60 by the creation of 450,470,628 B shares of 10 pence each and 450,470,628 C shares of 10 pence each, of which the B shares shall be allotted to the Banks, or their respective nominees, each as set out in Clause 2.5 and the issue of which is conditional on the order of the Court sanctioning the Scheme, and the Company be authorised to issue 10 authorised but unissued ordinary shares in the capital of the Company to SFI Holdings for cash.

(C) SFI Holdings was incorporated on 5 April 2004 under the Companies Act 1985 as a private limited company. The authorised share capital of SFI Holdings at the date of this Scheme is £100,304.794 divided into 474,893,188 A Shares of 0.0167 pence each, 50,655,878 B Shares of 0.0167 pence each and 75,078,438 C Shares of 0.0167 pence each, of which six A Shares have been issued and are credited as fully paid and the remainder are unissued.

(D) Each of the Banks, and where applicable their subsidiaries referred to in Clause 2.5, has agreed to appear by Counsel on the hearing of the petition to sanction this Scheme and to submit to be bound thereby for the purpose of giving effect to this Scheme.

(E) SFI Holdings has agreed to appear by Counsel on the hearing of the petition to sanction this Scheme and to submit to be bound by it and to undertake to the Court to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

THE SCHEME

1. Cancellation of the Scheme Shares and the share premium account

1.1 The capital of the Company shall be reduced by cancelling and extinguishing:

1.1.1 the Scheme Shares; and

1.1.2 the amount standing to the credit of the share premium account of the Company on the date of the Extraordinary General Meeting together with such further amount as is credited to the share premium account as a consequence of the Debt Conversion.

1.2 Subject to and forthwith upon the cancellation and extinguishing of the Scheme Shares taking effect:

1.2.1 the capital of the Company shall be increased by the creation of 19,600,000 Shares; and

1.2.2 the reserve arising in the books of the Company as a result of the cancellation and extinguishing of the Scheme Shares shall be applied in:

(i) paying up in full at par the 19,600,000 Shares which shall be allotted and issued credited as fully paid to SFI Holdings and/or its nominee(s);

(ii) issuing the Litigation Entitlements; and

(iii) crediting the Company's profit and loss account reserves.

2. Consideration for the cancellation of the Scheme Shares

2.1 In consideration of the cancellation of the Scheme Shares and the allotment and issue of the Shares as provided in Clause 1.2.2:

2.2.1 SFI Holdings shall (subject to the remaining provisions of this Clause 2) allot and issue to the holders of Scheme Shares (as appearing in the register of members of the Company at the Record Time) SFI Holdings Shares, credited as fully paid, on the following basis:

For every Ordinary Scheme Share then held	**One SFI Holdings A Share**
For every B Scheme Share then held	**the allocation of SFI Holdings A Shares and SFI Holdings B Shares set out in Clause 2.5**

save that the entitlement of any person holding SFI Holdings Shares as at the Record Time to receive SFI Holdings Shares pursuant to this Clause 2 shall be reduced by the number of SFI Holdings Shares so held; and

2.2.2 the Company shall, subject to the remaining provisions of this Clause 2, issue out of capital to the holders of Ordinary Scheme Shares (as appearing the register of members of the Company at the Record Time) Litigation Entitlements on the following basis:

For every Ordinary Scheme Share then held	**One Litigation Entitlement**

2.2 The SFI Holdings A Shares to be issued pursuant to this Clause 2 shall rank *pari passu* in all respects with all other fully paid SFI Holdings A Shares in issue on the Scheme Effective Date.

2.3 The provisions of this Clause 2 shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any holder of Scheme Shares with a registered address in a jurisdiction outside the United Kingdom or whom SFI Holdings reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom, SFI Holdings is advised that the allotment and/or issue of SFI Holdings Shares pursuant to this Clause 2 would or may infringe the laws of such jurisdiction or would or may require SFI Holdings to comply with any governmental or other consent or any registration, filing or other formality with which SFI Holdings is unable to comply or compliance with which SFI Holdings regards as unduly onerous, SFI Holdings may in its sole discretion, either:

2.3.1 determine that such SFI Holdings Shares shall not be allotted and/or issued to such holder under this Clause 2 but shall instead be allotted and issued to a nominee appointed by SFI Holdings as trustee for such holder on terms that the nominee shall, as soon as practicable following the Scheme Effective Date, sell the SFI Holdings Shares so allotted and issued; or

2.3.2 determine that such SFI Holdings Shares shall be sold, in which event the SFI Holdings Shares shall be issued to such holder and SFI Holdings shall appoint a person to act pursuant to this Clause 2.3.2 and such person shall be authorised on behalf of such holder to procure that any shares in respect of which SFI Holdings has made such determination shall, as soon as practicable following the Scheme Effective Date, be sold.

Any such sale shall be carried out at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions incurred in connection with such sale, including any value added tax payable on the proceeds of sale) shall be paid to the persons entitled thereto in due proportions. To give effect to any such sale, the nominee referred to in Clause 2.3.1 and/or the person appointed by SFI Holdings in accordance with Clause 2.3.2 (as the case may be) shall be authorised as attorney on behalf of the holder concerned to execute and deliver as transferor an instrument or instruction of transfer and to give such instructions and to do all other things which he may consider necessary or expedient in connection with such sale. In the absence of bad faith or wilful default, none of the Company, SFI Holdings, the nominee or the person so appointed shall have any liability for any loss or damage arising as a result of the timing or terms of such sale. The provisions of this Clause 2 shall apply *mutatis mutandis* with respect to the issue of Litigation Entitlements by the Company to any holder of Ordinary Scheme Shares with a registered address in a jurisdiction outside the United Kingdom or whom the Company reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom.

2.4 In the case of the holders of SFI Holdings Shares referred to in Preliminary (C) to this Scheme, the six SFI Holdings Shares subscribed by them shall be deemed to have been allotted and issued pursuant to this Clause save for the purpose of Clause 2.1.

2.5 The holders of B Shares shall be entitled to the allocation of SFI Holdings A Shares and SFI Holdings B Shares set out below:

Name	*SFI Holdings A Shares*	*SFI Holdings B Shares*
Evansgrove Limited[1] (a subsidiary of Alliance & Leicester Commercial Bank plc)	36,426,690	0
Barclays Bank PLC	96,250,000	50,655,878
Fortis Bank S.A./N.V.	48,063,610	0
The Governor and Company of the Bank of Scotland	32,055,969	0
HSBC Bank plc	91,005,693	0
West Register Investments Limited (a subsidiary of The Royal Bank of Scotland plc)	96,012,788	0

3. Settlement of Consideration

3.1 Not later than 21 days after the Scheme Effective Date or, in the case of any sums payable in accordance with Clause 2.3, not later than seven days after the date of sale:

3.1.1 SFI Holdings shall allot and issue all SFI Holdings Shares which it is required to allot and issue to give effect to this Scheme and deliver certificates therefor to the persons entitled thereto, or as they may direct, in accordance with the provisions of Clause 3.2;

3.1.2 SFI Holdings shall in the case of Scheme Shares which at the Record Time are in certificated form deliver or procure delivery to the persons entitled thereto, or as they may direct, in accordance with the provisions of Clause 3.2, cheques and/or warrants for the sums payable to them respectively in accordance with Clause 2 or, in the case of Scheme Shares which at the Record Time are in uncertificated form, ensure that an assured payment obligation in respect of the sums payable to the persons entitled thereto is created in accordance with the CREST assured payment arrangements. Provided that SFI Holdings reserves the right to make payment of the said sums by cheque and/or warrant as aforesaid if, for any reason, it wishes to do so; and

3.1.3 the Company shall issue Litigation Certificates in accordance with the terms of the Litigation Entitlement Instrument.

3.2 All deliveries of certificates, cheques or warrants required to be made pursuant to this Scheme shall be effected by posting the same by first class post in prepaid envelopes addressed to the persons entitled thereto at their respective addresses as appearing in the register of members of the Company at the Record Time (or, in the case of joint holders, at the address of that one of the joint holders whose name stands first in the said register in respect of such joint holding at such time) or in accordance with any special instructions regarding communications, and none of the Company, SFI Holdings, the nominee referred to in Clause 2.3.1 or the person appointed by SFI Holdings in accordance with Clause 2.3.2 shall be responsible for any loss or delay in the transmission of any certificates, cheques or warrants sent in accordance with this Clause 3.2 which shall be sent at the risk of the persons entitled thereto.

3.3 All cheques and warrants shall be drawn on a UK clearing bank and shall be made payable to the person to whom in accordance with the foregoing provisions of this Clause 3 the envelope containing the same is addressed or to such other persons (if any) as such persons may direct in writing and the encashment of any such cheque or warrant or the creation of any such assured payment obligation as is referred to in Clause 3.1.2 shall be a complete discharge to SFI Holdings, for the monies represented thereby.

3.4 The provisions of this Clause 3 shall be subject to any condition or prohibition imposed by law.

1 As nominee for the Alliance & Leicester Commercial Bank plc

4. Certificates for Scheme Shares

With effect from and including the Scheme Effective Date:

4.1 all certificates representing Scheme Shares shall cease to have effect as documents of title to the Scheme Shares comprised therein and every holder of Scheme Shares shall be bound at the request of the Company to deliver up the certificate(s) for his holding thereof to the Company or as it may direct; and

4.2 CRESTCo shall be instructed to cancel the entitlements to Scheme Shares of holders of Scheme Shares in uncertificated form.

5. Dividend mandates

All mandates and other instructions to the Company in force at the Record Time relating to Scheme Shares shall, unless and until revoked or amended, be deemed as from the Scheme Effective Date to be valid and effective mandates and instructions to SFI Holdings in relation to the SFI Holdings Shares issued in respect thereof.

6. The Scheme Effective Date

6.1 This Scheme shall become effective as soon as an office copy of each of the Orders of the Court sanctioning this Scheme under Section 425 of the Companies Act 1985 and confirming under Section 137 of the said Act the Reduction of Capital provided for by this Scheme shall have been delivered to the Registrar of Companies in England and Wales for registration and, in the case of the confirmation of the Reduction of Capital, registered by him.

6.2 Unless this Scheme shall have become effective on or before 28 August 2004, or such later date, if any, as the Company and SFI Holdings may agree and the Court may allow, the Scheme shall never become effective.

7. Modification

The Company and SFI Holdings may jointly consent on behalf of all concerned to any modification of or addition to this Scheme or to any condition which the Court may approve or impose.

Dated 7 April 2004

PART IV

INFORMATION ON SFI HOLDINGS

1. History of SFI Holdings

SFI Holdings was incorporated and registered in England and Wales on 5 April 2004, with registered number 5095347, under the Companies Act 1985 as a private company limited by shares and has its registered office at SFI House, 165 Church Street East, Woking GU21 6HJ.

SFI Holdings has an authorised share capital of £100,304.794 divided into 474,893,188 SFI Holdings A Shares, 50,655,878 Holdings B Shares and 75,078,438 SFI Holdings C Shares and is currently wholly owned by the Banks who hold one SFI Holdings A Share each, either as principal or through a nominee and/or subsidiary.

SFI Holdings has not traded since incorporation and has not yet produced any financial statements.

2. Rights attaching to SFI Holdings Shares

The full rights attaching to the SFI Holdings Shares are set out in the SFI Holdings Articles, copies of which are available for inspection as described in paragraph 7 of Part VI of this document.

The SFI Holdings Articles contain, amongst other things, provisions to the following effect:

2.1 *Classes of share*

As described in paragraph 2 of Part II of this document, there will be three classes of SFI Holdings Shares. Each will rank equally as regards rights to dividends and to a return of capital (whether on a winding up or otherwise). The main differences between the classes relate to their voting rights, and their treatment on transfer.

2.2 *Voting rights*

At a general meeting, but subject to any rights or restrictions attached to any specific SFI Holdings Shares, on a show of hands every holder of SFI Holdings A Shares and every holder of SFI Holdings C Shares present in person or by proxy (or being a corporation present by a duly authorised representative) shall have one vote, and on a poll every member who is present in person or by proxy shall have one vote for every SFI Holdings A Share or SFI Holdings C Share of which he is the holder.

The holders of SFI Holdings B Shares shall be entitled to receive notice of, and to attend, general meetings of SFI Holdings but shall have no voting rights in respect of such SFI Holdings B Shares (other than in respect of class meetings of the holders of SFI Holdings B Shares).

No holder of SFI Holdings Shares will be entitled to vote at a shareholders' meeting or at any separate meeting of the holders of any class of SFI Holdings Shares if any monies or other sum presently owed to SFI Holdings in respect of that SFI Holdings Share remains unpaid. A holder of SFI Holdings Shares may also be ineligible to vote in the circumstances set out in paragraph 2.10 below.

2.3 *Reserved matters*

The following matters will require the approval of an ordinary resolution passed by the holders of SFI Holdings Voting Shares:

(a) the sale or disposition of an asset or of any interest in an asset by a company in the SFI Holdings Group, other than by and to a wholly-owned subsidiary of SFI Holdings, where the fair market value of the asset, or the seller's interest in it, or the consideration paid, is more than £25 million;

(b) the acquisition of an asset or of any interest in an asset by a company in the SFI Holdings Group, other than from and by a wholly-owned subsidiary of SFI Holdings, where the fair market value of the asset, or the acquirer's interest in it, or the consideration paid, is more than £25 million;

(c) a decision by SFI Holdings to sell or list any shares in the Company;

(d) a decision to submit an application to obtain a listing on a stock exchange for SFI Holdings;

(e) a decision to issue SFI Holdings Shares or securities convertible into SFI Holdings Shares (other than SFI Holdings Shares or such securities issued pursuant to an employees' share scheme);

(f) the granting of any right to subscribe for SFI Holdings Shares (such as an option) to or for the benefit of any employee or officer of SFI Holdings, or of any of its subsidiaries; and

(g) the SFI Holdings Directors deciding to treat a "Bad Leaver" as a "Good Leaver" for the purposes of valuing such person's SFI Holdings C Shares (as described in paragraph 2.7 below) where such person is or was a SFI Holdings Director.

For the purposes of determining whether the £25 million threshold referred to in paragraphs (a) and (b) has been exceeded, transactions shall be aggregated with related transactions which have taken place in the preceding 12 months.

No further approval will be required pursuant to the above paragraphs in respect of the issue of SFI Holdings C Shares pursuant to the Management Incentive Scheme, as described in this document, which will be approved by SFI Holdings prior to the Scheme becoming effective.

In addition to the above reserved matters, a special resolution of SFI Holdings will be required if it is proposed to issue SFI Holdings C Shares such that more than 75,078,438 SFI Holdings C Shares will be in issue.

2.4 ***Dividends***

Subject to the provisions of the Companies Act, SFI Holdings may by ordinary resolution declare dividends in accordance with the respective rights of holders of SFI Holdings Shares, but no dividend shall exceed the amount recommended by the SFI Holdings Directors.

The SFI Holdings A Shares, SFI Holdings B Shares and SFI Holdings C Shares will rank *pari passu* with each other as far as their right to dividends are concerned.

The SFI Holdings Directors will be entitled to pay such interim dividends as it appears to them are justified by the profits of SFI Holdings available for distribution, subject to the Companies Act.

2.5 ***Variation of rights***

Manner of variation of rights

The special rights attached to each class of SFI Holdings Shares may, subject to the Companies Act, be varied or abrogated either with:

(a) the written consent of the holders of three quarters in nominal value of the issued SFI Holdings Shares of the class; or

(b) the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of the class (but not otherwise).

At every such separate meeting the necessary quorum is two persons (or, in circumstances where there is one holder of SFI Holdings Shares of any class, one person) holding, or representing by proxy, at least one third of the issued SFI Holdings Shares of the class, except that at an adjourned meeting the quorum is any holder of shares of the class present in person or by proxy.

Variation of SFI Holdings A Shares and SFI Holdings C Shares

The rights attached to the SFI Holdings A Shares and SFI Holdings C Shares shall not be varied by:

(a) the conversion of SFI Holdings A Shares or SFI Holdings B Shares; or

(b) the issue of C Shares to employees or directors of any company in the SFI Holdings Group.

Variation of SFI Holdings B Shares

The rights attached to the SFI Holdings B Shares shall be deemed to be varied by:

(a) the creation and/or issue of any share capital of SFI Holdings ranking *pari passu* or in priority to them for payment of a dividend or capital (including, without limitation, any issue of an existing class of Shares or the creation of a new class of shares of SFI Holdings);

(b) any consolidation or subdivision of SFI Holdings A Shares or SFI Holdings C Shares;

(c) any amendment to SFI Holdings' Memorandum of Association or the SFI Holdings Articles where such alteration might be adverse or prejudicial to the holders of SFI Holdings B Shares; or

(d) any resolution to put SFI Holdings into liquidation,

but shall not be varied by:

(e) the conversion of SFI Holdings A Shares or SFI Holdings B Shares; or

(f) the issue of SFI Holdings C Shares to employees or directors of any company in the SFI Holdings Group.

2.6 ***Transfer of SFI Holdings A Shares and SFI Holdings B Shares***

The SFI Holdings A Shares and SFI Holdings B Shares are freely transferable.

2.7 ***Transfer of SFI Holdings C Shares***

Transfer in ordinary circumstances

In ordinary circumstances, the SFI Holdings C Shares may not be held other than by the holder of SFI Holdings C Shares to whom the relevant SFI Holdings C Shares were originally allotted and, subject to obtaining the prior written consent of the Directors (such consent not to be unreasonably withheld), by:

(a) such person's spouse, adult children or adult step children; or

(b) to the trustee or trustees of a family trust or the SFI Holdings employee share trust.

If the original SFI Holdings C Shareholder does transfer any SFI Holdings C Shares to any such person, it will be the original holder of the SFI Holdings C Shares, and not the transferee, who is entitled to vote at shareholder meetings of SFI Holdings.

Transfer in specific situations

In addition, the SFI Holdings C Shares can be transferred in the event of a successful listing of SFI Holdings, or in the event of a "Qualifying Offer" as described in paragraph 2.8 below. SFI Holdings C Shares will also be compulsorily transferred in the circumstances described in paragraph 2.8 below.

Compulsory transfer on cessation of employment

SFI Holdings C Shares will also be subject to transfer obligations where the original holder of the SFI Holdings C Shares leaves the employment of the Company. The price received for the SFI Holdings C Shares will depend on the circumstances of leaving. An employee will be treated as a "Good Leaver" if he or she leaves due to:

(a) retirement at contractual retirement age;

(b) ill health;

(c) disability;

(d) death; or

(e) redundancy,

in each case provided such person is leaving at least 12 months after a specific date which will be approximately the Scheme Effective Date or, if later, the date their employment commenced.

An employee will be treated as a "Bad Leaver" if he or she:

(a) leaves for any reason other than those set out for "Good Leavers" above; or

(b) is found, whether during or after employment, to have committed acts justifying summary dismissal.

In addition, the remuneration committee of SFI Holdings may decide to treat any leaver as a "Good Leaver" provided that such decision will require shareholder approval as set out in paragraph 2.3 above where the person concerned is or was a SFI Holdings Director. SFI Holdings will control when the SFI Holdings C Shares have to be transferred by deciding when it will serve a notice on the holder of the SFI Holdings C Shares requiring him or her to transfer his or her shares. "Good Leavers" will be required to transfer their SFI Holdings C Shares back to SFI Holdings (or to a nominee of SFI Holdings or an employee trust) at the higher of their cost and their current market value at the time when SFI Holdings requests the transfer of the SFI Holdings C Shares. "Bad Leavers" will be required to transfer their SFI Holdings C Shares to SFI Holdings (or to a nominee of SFI Holdings or an employee trust) at the *lower* of their cost and their current market value at the time SFI Holdings requests the transfer of the SFI Holdings C Shares.

A leaver will be entitled to vote the SFI Holdings C Shares at any relevant shareholder meeting until the date when SFI Holdings requests the transfer of the SFI Holdings C Shares. Thereafter, he or she will be deemed to vote his or her SFI Holdings C Shares in the same manner as the majority of votes cast.

The proceeds of any sale of SFI Holdings C Shares will first be used to repay any amounts due from the relevant SFI Holdings Shareholder to any company in the SFI Holdings Group. The SFI Holdings Articles also include an indemnity from the holders of SFI Holdings C Shares in favour of SFI Holdings in respect of any income tax or social security contributions (other than employer national insurance contributions) which may arise in respect of any SFI Holdings C Shares, including a transfer of SFI Holdings C Shares.

The SFI Holdings Directors may also require the transfer of SFI Holdings C Shares if they are transferred to, or held by, a person or trust other than one permitted under the principles set out in the paragraph ''Transfer in ordinary circumstances'' above. In these circumstances, the price payable for the SFI Holdings C Shares will be as for ''Bad Leavers''.

2.8 ***Ownership restriction and drag along***

General restriction

The SFI Holdings Articles will contain a restriction on any person, or group of persons acting in concert, acquiring an interest of more than 30 per cent. of the SFI Holdings Voting Shares, unless they go on to acquire 50 per cent. of the SFI Holdings Shares.

Requirements for holders of more than 30 per cent. of SFI Holdings Voting Shares

If any person, or group of persons acting in concert, does acquire an interest of more than 30 per cent. of the SFI Holdings Voting Shares, they are required within 20 business days to:

(a) make a ''qualifying offer'' to all other SFI Holdings Shareholders to acquire their SFI Holdings Shares; and

(b) receive acceptances in relation to such ''qualifying offer'' such that their total holding of SFI Holdings Shares exceeds 50 per cent. of the SFI Holdings Shares.

If any person has an interest in more than 30 per cent. of the SFI Holdings Voting Shares, then unless the requirements set out above are fulfilled, SFI Holdings shall be entitled to sell, at the best price reasonably obtainable at the time of sale, those SFI Holdings Voting Shares in which such person is interested in excess of the 30 per cent. threshold. No transfer will be registered if it would result in a person having an interest in more than 30 per cent. of the SFI Holdings Voting Shares unless the requirements set out above are satisfied.

Terms of ''qualifying offer''

A ''qualifying offer'' shall be made on the following terms:

(a) the consideration per SFI Holdings Share shall be a minimum of the highest price paid by the offeror (or any person acting in concert with it) for a SFI Holdings Share in the preceding 12 months;

(b) the offer shall be open for acceptance until a date at least 21 days from the date of notification of the qualifying offer to the SFI Holdings Shareholders;

(c) the price shall be the same for each SFI Holdings Share irrespective of the class;

(d) the total consideration shall be paid to SFI Holdings and to the extent that SFI Holdings receives such purchase money it shall hold it on trust for each of the SFI Holdings Shareholders having regard to the appropriate allocations;

(e) the offeror shall be required to have sufficient financial resources to meet its obligations under the offer, or an unconditional and legally binding commitment from one or more lenders for that finance, prior to making the offer; and

(f) the offer shall be made on terms that if the offeror does not receive acceptances such that the offeror has an interest in 50 per cent. or more of the SFI Holdings Shares, then the offer shall lapse.

SFI Holdings shall be obliged to appoint an independent financial adviser to provide independent advice on any qualifying offer and shall make the substance of that advice known to SFI Holdings Shareholders.

Drag along

If a person holds, or has contracted to acquire pursuant to a qualifying offer or otherwise, an interest in 50 per cent. or more of the SFI Holdings Shares, such person may, within 10 business days of reaching that threshold, serve a compulsory transfer notice on each other SFI Holdings Shareholder requiring them to sell all their SFI Holdings Shares at a fixed price. The price will be either the price paid under the ''qualifying offer'' if there was one, or if there was no ''qualifying offer'', the price that would have been the minimum price for a qualifying offer had one been required (as described above).

2.9 ***Conversion of SFI Holdings B Shares***

SFI Holdings B Shares shall be converted into SFI Holdings A Shares on a one for one basis: (a) automatically upon the transfer of the SFI Holdings B Share to any person other than an affiliate of the transferor; or (b) upon written request delivered to the Company by a holder of SFI Holdings B Shares provided that such written request would not result in the relevant SFI Holdings B shareholder and its affiliates holding more than 17.5 per cent. of the Voting Shares.

The SFI Holdings A Shares arising from conversion of the SFI Holdings B Shares shall rank *pari passu* in all respects with the other SFI Holdings A Shares then in issue.

2.10 ***Information concerning shareholdings and transfers***

In order to ensure that a transfer of SFI Holdings Shares is valid, or to determine the extent of any interest in SFI Holdings Shares, or the manner in which such interest arose, the SFI Holdings Directors may require any holder of SFI Holdings Shares or any person named as transferee in any transfer (or otherwise identified as transferee) to provide to SFI Holdings such information and evidence as the SFI Holdings Directors may think fit. In addition, any person acquiring SFI Holdings Shares and applying for a registration of the transfer shall be required to disclose details of any other current or former interests in SFI Holdings Shares. Within 14 days of a change of any interest in SFI Holdings Shares, a holder of SFI Holdings Shares must give written details of the change to SFI Holdings. If such information or evidence is not provided to the satisfaction of the SFI Holdings Directors within 20 business days, then such person shall not be entitled to exercise any votes which such person may have in excess of 30 per cent., unless the SFI Holdings Directors otherwise decide. Alternatively, the Directors will be entitled to refuse to register the transfer in question or (if no transfer is in question) to issue an information request notice to the relevant Shareholder.

From the date of such information request notice until such time as information or evidence has been provided to the satisfaction of the SFI Holdings Directors, the relevant SFI Holdings Shares will not carry any voting rights and will be deemed to consent to any matter requiring the consent of that class of SFI Holdings Shareholder. In addition, the relevant SFI Holdings Shareholder will not be entitled to receive payment of any sums which would otherwise be due from SFI Holdings during such period, whether in respect of capital, dividends or otherwise, and such sums shall accrue until such time as the SFI Holdings Directors authorise their release to the relevant SFI Holdings Shareholder.

3. Listing

No application has been made for all or any of the SFI Holdings Shares to be admitted to the Official List of the UK Listing Authority or admitted to trading on the London Stock Exchange's market for listed securities, nor has any application been made for all or any of the SFI Holdings Shares to be admitted to trading on any other stock exchange, and no facility to deal all or any SFI Holdings Shares on any other market has been sought. No such application is currently intended.

PART V

PARTICULARS OF THE LITIGATION ENTITLEMENTS

The Litigation Entitlements will be created by a resolution of the Board and will be constituted by the Litigation Entitlement Instrument. Issue of the Litigation Entitlements to Shareholders will be conditional upon the Scheme becoming effective. The Litigation Entitlement Instrument will contain provisions, amongst other things, to the effect set out below.

1. Form and status of the Litigation Entitlements

The Litigation Entitlements will be issued by the Company in registered form and will be evidenced by Litigation Certificates. They will constitute unsecured prospective obligations of the Company. The Litigation Entitlement Instrument will not contain any restrictions on borrowing, disposals or charging of assets by the Company. The Litigation Entitlements will not carry any entitlement to interest or to any payment on redemption save as set out in paragraph 4 below.

2. Maximum number of Litigation Entitlements

The number of Litigation Entitlements to be issued will be 75,078,438, or, if different, the number of Shares held by holders of Ordinary Scheme Shares on the register of members at the Record Time.

3. Litigation Certificates

Litigation Entitlement Holders will be issued with Litigation Certificates. New Litigation Certificates will not be issued to a person who becomes entitled to Litigation Entitlements in the event of death of a Litigation Entitlement Holder.

4. Payment of Net Litigation Proceeds

Litigation Entitlement Holders will in aggregate be entitled to receive cash payments equivalent to the Relevant Net Litigation Proceeds (subject to any requirement to deduct any amount therefrom in respect of taxation).

Payments to Litigation Entitlement Holders, if any, will be made following receipt by the Company of the Litigation Proceeds and final determination of the Relevant Net Litigation Proceeds. The determination of the amount of the Net Litigation Proceeds and the Relevant Net Litigation Proceeds, if any, will be made by the Company's auditors as soon as reasonably practicable following conclusion of the Litigation (or any settlement thereof), as determined by the Directors.

Within 30 days of the Determination Date, the Company will write to all Litigation Entitlement Holders on the register of Litigation Entitlement Holders as at the Determination Date informing them of the share of the Relevant Net Litigation Proceeds, if any, that they are entitled to pursuant to the Litigation Entitlements held by them and enclosing a cheque payable to each Litigation Entitlement Holder for the amount owed to it. Following such payment the Company shall have no further liability in respect of the Litigation Entitlements, and all of the Litigation Entitlements shall thereupon be cancelled.

A Litigation Entitlement Holder shall not be entitled to any payment pursuant to its holding of Litigation Entitlements unless the total amount that it is owed pursuant to its entire holding is equal to or greater than £3. Fractional entitlements of less than £1 on the total amount owed to a Litigation Entitlement Holder will be rounded down and disregarded and will be, along with sums of less than £3, retained by the Company.

Control of any Litigation will remain with the Directors, who will have sole discretion as to the conduct of any Litigation. Should the Directors decide not to pursue or to terminate the Litigation, the Company will notify the Litigation Entitlement Holders, either by way of general advertisement or in the next annual report and accounts of SFI Holdings, which notification shall be deemed notice to all Litigation Entitlement Holders that all rights under the Litigation Entitlements shall automatically lapse at that time and the Litigation Entitlements shall thereupon be cancelled.

For the avoidance of doubt, the Board shall be entitled in its absolute discretion to avoid, contest, defend, compromise or settle the Litigation or appeal any judgment or award in relation thereto (including, without limitation, the appointment and instruction of legal advisers and Counsel) and to have conduct of any related proceedings, negotiations and appeals.

Neither the Company nor SFI Holdings guarantees or warrants that there will be any Relevant Net Litigation Proceeds. Neither the Company nor SFI Holdings will accept any liability to any Litigation Entitlement Holder in respect of any act or omission in connection with the conduct of the Litigation in the absence of fraud or wilful default.

A Litigation Entitlement Holder shall not take any action or step to wind up the Company or otherwise commence insolvency proceedings against the Company, in respect of or in connection with its right to receive any sum pursuant to Litigation Entitlements, unless the Company has received the Litigation Proceeds, the amounts of the Net Litigation Proceeds and the Relevant Net Litigation Proceeds have been determined and the Litigation Entitlement Holder has given the Company not less than 60 business days' prior written notice of its intention to take such step or action.

5. Transfer

The Litigation Entitlements will be non-transferable save that the executors of a deceased Litigation Entitlement Holder may transfer such deceased Litigation Entitlement Holder's Litigation Entitlements.

6. Register

The Company shall maintain, or procure that its registrar maintains, a register of Litigation Entitlement Holders, but shall only update it to show changes of address and transfers made in accordance with paragraph 5 above.

7. Modification

The provisions of the Litigation Entitlement Instrument and the rights of Litigation Entitlement Holders will be subject to modification, abrogation or compromise in any respect with the sanction of an Extraordinary Resolution (as defined in the Litigation Entitlement Instrument), of the Litigation Entitlement Holders and with the consent of the Company and the Banks. In addition, the Company may amend the provisions of the Litigation Entitlement Instrument with the consent of the Banks but without sanction of the Litigation Entitlement Holders if such amendment would not be materially prejudicial to the interests of the Litigation Entitlement Holders.

8. No listing

No application has been or will be made to any stock exchange for the Litigation Entitlements to be listed or otherwise traded or dealt in.

9. Governing law

The Litigation Entitlements and the Litigation Entitlement Instrument will be governed by and construed in accordance with English law.

PART VI

ADDITIONAL INFORMATION

1. Responsibility

1.1 The Directors and the Proposed Director, whose names are set out in paragraph 2.1 below, accept responsibility for the information contained in this document, other than that relating to SFI Holdings, the SFI Holdings Directors and their interests, for which the SFI Holdings Directors accept responsibility as set out below. 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 for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

1.2 The SFI Holdings Directors and the Proposed Director, whose names are set out in paragraph 2.2 below, accept responsibility for the information contained in this document relating to SFI Holdings, the SFI Holdings Directors and their interests. To the best of the knowledge and belief of the SFI Holdings Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Directors of the Company and SFI Holdings

2.1 The Directors and their respective functions are:

Name	*Position*
Stuart Lawson	Executive Chairman
Tim Andrews	Finance Director
John Brackenbury	Non-Executive Director
Hugh Siegle	Non-Executive Director

Following successful implementation of the proposals Edward Lavelle (current commercial director and company secretary of the Company) will be appointed as a director of the Company.

2.2 The SFI Holdings Directors and their respective functions are:

Name	*Position*
Stuart Lawson	Executive Chairman
John Brackenbury	Non-Executive Director
Hugh Siegle	Non-Executive Director

Following successful implementation of the proposals Edward Lavelle will be appointed as a director of SFI Holdings.

3. Directors' and others' interests

3.1 As at 6 April 2004 (being the latest practicable date prior to the publication of this document) the interests in Shares which: (i) have been notified by the Directors pursuant to Section 324 or 328 of the Companies Act; (ii) are required pursuant to Section 325 of the Companies Act to be entered into the register referred to therein; (iii) are interests of persons connected (within the meaning of Section 346 of the Act) with the Directors which, if the connected person were a Director, would be required to be disclosed under (i) or (ii) above, the existence of which was known or could with reasonable diligence be ascertained by that Director; or (iv) have been notified by the SFI Holdings Directors, were as follows:

Name	*Number of Shares*	*Percentage of issued share capital of the Company*
Hugh Siegle	8,601	0.01%
John Brackenbury	20,773	0.03%
Edward Lavelle (Proposed Director)	2,000	0.00%

Details of the interests of the Directors in the Management Incentive Scheme and the EV Uplift Scheme are set out at paragraph 2.4 of Part II of this document.

3.2 As at 1 April 2004 (being the latest practicable date prior to the publication of this document) the interest in Shares by the Banks and their respective group Companies (excluding shareholdings on a non-discretionary basis) are as follows:

(a) Barclays Bank PLC

Group Company/Nominee	*Number of Shares*	*Percentage of issued share capital of the Company*
Barclays Bank Trust Co Ltd	191	0.00%
Barclays Global Investors Ltd	1,313,730	1.75%
Barclays Life Assurance Co Ltd	66,055	0.09%
Barclays Private Bank & Trust Ltd	48,000	0.06%
Gerrard Ltd	56,325	0.08%
	1,484,301	1.98%

(b) The Governor and Company of the Bank of Scotland

Group Company/Nominee	*Number of Shares*	*Percentage of issued share capital of the Company*
HSDL Nominees Limited	3	0.00%
State Street Nominees Limited	6,000	0.01%
	6,003	0.01%

4. Directors' service agreements and emoluments

4.1 The Directors have entered into service agreements having more than 12 months to run with the Company, short particulars of which are set out below:

(a) a service agreement dated 23 June 2003 was entered into between the Company and Stuart Lawson. The appointment is not for a fixed term but is terminable upon the Company giving Stuart Lawson not less than 12 months' prior written notice or by Stuart Lawson giving to the Company not less than six months' written notice. His current salary is £230,000 per annum. Stuart Lawson is also entitled to a guaranteed 50 per cent. bonus of his base salary for the first year of his employment, plus a further discretionary performance-related bonus. In the event of a termination of his service agreement by the Company, he is entitled to an amount equal to the total of his annual salary, the annual value of all of his contractual benefits and a sum equivalent to the remuneration committee's reasonable assessment of the bonus that would have been, but for termination of his contract, payable for the year in which his service agreement was terminated. In addition, in the event of a change of control of the Company and notice to terminate Stuart's service agreement is given within 12 months of such change of control, the Company shall pay as liquidated damages an amount equal to the sum of his annual salary and the annual value of all his contractual benefits; and

(b) a service agreement dated 26 April 2002 was entered into between the Company and Tim Andrews. His current salary is £140,000 per annum plus a discretionary performance-related bonus. The appointment is not for a fixed term but is terminable upon either party giving to the other not less than 12 months' prior written notice. Tim gave the Company written notice of his resignation on 27 January 2004. Tim will continue to work with the Company for a period of time after his replacement has been appointed and he has left the Board, focusing his efforts principally on the Litigation.

4.2 It is proposed that the Company enter into a service contract with Edward Lavelle upon his appointment to the Board after implementation of the Proposals. The appointment will not be for a fixed term but will be terminable upon the Company giving Edward Lavelle not less than 12 months' prior written notice or by Edward Lavelle giving to the Company not less than six months' written notice. His proposed salary will be £120,000 per annum plus a discretionary performance-related bonus. In the event of a termination of his service agreement by the Company, Edward will be entitled to his annual salary and the annual value of all his contractual benefits. In addition, in the event of a change of control of the Company and notice to terminate his service agreement is given within 12 months of such change of control, the Company shall pay as liquidated damages an amount equal to the sum of his annual salary and the annual value all of his contractual benefits.

5. Material contracts

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

(a) a support agreement dated 1 April 2004 between: (1) the Company, SFI Developments Limited, Your Eyes Only Limited, The Slug & Lettuce Group Limited and Slug & Lettuce Limited (the ''Borrowers''); (2) the Company, SFI Developments Limited, Your Eyes Only Limited, The Slug & Lettuce Group Limited, and Slug & Lettuce Limited, Slug & Lettuce Holdings Limited, Parisa Café Bars Limited, Isisgreen Limited, S&L (Stoney Lane) Limited and Satellite Holdings Limited (the ''Original Guarantors''); (3) the Banks; and (4) Barclays Bank PLC (as agent, security trustee, co-ordinator, original bilateral lender and issuing bank), Barclays Capital (as arranger) and Barclays Bank PLC and The Royal Bank of Scotland plc (the ''Hedging Banks'') (the ''Support Agreement''). The Support Agreement will reflect the terms of the continuing debt facilities until the Restructuring becomes effective and pursuant to which:

(i) following the satisfaction of certain conditions precedent (the ''Support Conditions Precedent''), certain events of default by the Company under the Existing Facilities have been waived pending completion of the Restructuring. These waivers will be terminated if a Support Default (as defined in the Support Agreement, and including events such as the occurrence of an event of default under the Existing Facilities that has not been waived, failure to comply with the Support Agreement or the agent having reasonable grounds to believe that the Restructuring cannot be carried out in accordance with the Restructuring Timetable (as defined in the Support Agreement)) occurs and the Barclays Bank PLC agent for the Banks (the ''Agent'') serves a notice of termination;

(ii) the Guarantors have guaranteed to the Finance Creditors (as defined in the Support Agreement) payment of all amounts owing under the Existing Facilities and to indemnify the Finance Creditors against payment of all amounts owing to them;

(iii) on the satisfaction of certain other conditions precedent (the ''Restructuring Conditions Precedent'') and provided that the Support Agreement has not been terminated by the Agent following the occurrence of a Support Default, the Existing Facilities will be amended and restated (as described below). The Restructuring Conditions Precedent must be satisfied prior to 27 May 2004, or such other date as may be agreed in writing between the Company and the Agent;

(iv) in satisfaction of the Support Conditions Precedent:

A. Isisgreen Limited, S&L (Stoney Lane) Limited and Satellite Holdings Limited have granted new security to secure the indebtedness outstanding under the Existing Approved Facilities and have acceded to the Syndicated Facilities as guarantors. (In each case, such security, guarantee and indemnity shall exclude liabilities arising under the Hedging Agreements and any liability which, if guaranteed, would contravene Sections 151-153 of the Companies Act); and

B. the Company has granted new security over certain bank accounts substantially in the form annexed to the Support Agreement as Schedule 8; and

(v) the Restructuring Conditions Precedent include a requirement for:

A. the Company, SFI Developments Limited, Your Eyes Only Limited and Parisa Café Bars Limited to grant new security to secure the indebtedness under the Amended Facility Agreement and Amended Existing Approved Facilities Letter (both as defined below) substantially in the form annexed to the Support Agreement as Schedule 9; and

B. SFI Holdings to grant new security, provide guarantees and give certain undertakings in respect of the indebtedness under the Amended Facility Agreement and the Amended Existing Approved Facilities Letter (both as defined below) substantially in the form annexed to the Support Agreement as Schedules 10 and 11;

(b) upon the Restructuring Conditions Precedent being satisfied, the Syndicated Facility will be amended and restated so as to take the form of the amended and restated facility agreement, which is annexed to the Support Agreement as Schedule 5 (the ''Amended Facility Agreement'').

Under the terms of the Amended Facility Agreement, three term loan facilities (which will be fully drawn as at the Restructuring) have been made available to the Borrowers by the Banks in an aggregate amount of £70 million. The Amended Facility Agreement contains certain representations and undertakings in favour of the Finance Creditors, including financial covenants. Its also contains events of default upon the occurrence of which the Majority Continuing Finance Creditors (as defined in the Amended Facility Agreement) may cancel the facilities and demand repayment. The Amended Facility Agreement also contains guarantees by the Company and certain of its subsidiaries of the obligations owed to the Finance Creditors;

(c) on the Restructuring Conditions Precedent being satisfied, the Existing Approved Facilities will also be amended and overridden so as to take the form of the amended existing approved facility letter, which is annexed to the Support Agreement as Schedule 6 (the ''Amended Existing Approved Facilities Letter''). Under the terms of the Amended Existing Approved Facilities Letter, Barclays Bank PLC agrees to provide the Company with an overdraft facility in the maximum amount of £10 million (including ancillary facilities in the form of BACS facilities in the maximum amount of £8 million and a company Barclaycard in the amount of £100,000);

(d) on the Restructuring Conditions Precedent being satisfied, the Company will be required to undertake hedging arrangements in accordance with the revised hedging letter, substantially in the form annexed to the Support Agreement as Schedule 7;

(e) in order to effect the Debt Conversion, an investment agreement dated 1 April 2004 has been entered into between the Company and the Finance Creditors pursuant to which the parties have agreed that, subject to specified conditions including Court Sanction, the Debt Conversion Amount (£83.4 million) be discharged in full in consideration for the issue of B Shares in the Company to the Banks. The B Shares so issued will subsequently be exchanged into SFI Holdings Shares pursuant to the Scheme;

(f) a sale and purchase agreement between the Company and Westmark Developments Limited (''Westmark'') dated 5 December 2002 pursuant to which Westmark purchased from the Company the property and fixtures and fittings located at The Litten Tree, Constitution Hill, Woking, Surrey. The aggregate consideration payable by Westmark was £1,925,000. Under the terms of the agreement, the Company received a further £277,813.50 in July 2003 which represented a portion of the amount of the price paid for the property, in excess of the amount paid by Westmark to the Company less associated costs, when the property was subsequently sold to a third party by Westmark;

(g) a sale and purchase agreement between the Company, Tusk Club Limited (''Tusk'') and McKinlay Holdings Limited (''McKinlay'') dated 11 April 2003 pursuant to which Tusk purchased from the Company the business (as a going concern) located at For Your Eyes Only, London Road, Southampton and all the property, assets and rights of the Company in respect of such business (excluding specified excluded assets). McKinlay acted as guarantor to Tusk. The aggregate consideration payable by Tusk was £1 million and an amount in respect of stock as determined following a valuation of that stock (all sums payable were exclusive of VAT);

(h) a sale and purchase agreement between the Company and Betterbet Limited (''Betterbet'') dated 28 November 2003 pursuant to which Betterbet purchased from the Company the business (as a going concern) located at the ground floor and basement of 7/8 Argyll Street, London W1 and all the property, assets and rights of the Company in respect of such business (excluding specified excluded assets). On completion, the Company granted Betterbet a sub-lease. The aggregate consideration payable by Betterbet was £570,000 and an additional amount in respect of certain stock following a valuation of that stock (all sums payable were exclusive of VAT);

(i) a sale and purchase agreement between the Company and Greene King Plc (''Greene King'') dated 1 September 2003 pursuant to which Greene King purchased the business (as a going concern) located at The Inn Lodge, Burrfields Road, Portsmouth and all the property, assets and rights of the Company in respect of such business (excluding specified excluded assets). Greene King agreed to pay £4.8 million aggregate consideration and an amount in respect of stock as determined following a valuation of that stock (all sums payable were exclusive of VAT);

(j) a sale and purchase agreement between the Company and Greene King Acquisitions Limited (''Greene King Acquisitions'') dated 1 September 2003 pursuant to which Greene King Acquisitions purchased the business (as a going concern) located at The Bridge Inn, Yatton and

all the property, assets and rights of the Company in respect of such business (excluding specified excluded assets) together with some additional property adjoining The Bridge Inn, Yatton. Greene King Acquisitions agreed to pay £3.2 million aggregate consideration and an amount in respect of stock as determined following a valuation of that stock (all sums payable were exclusive of VAT);

(k) a sale and purchase agreement between the Company, For Your Eyes Only Limited (''FYEO''), Nasib Kaur Ladhar (as guarantor of FYEO) and Baldev Singh Ladhar (as guarantor of FYEO) dated 4 September 2003 pursuant to which FYEO purchased various businesses (as going concerns) located in Bournemouth, Croydon, Park Royal and Newcastle and all the property, assets and rights of the Company in respect of such businesses (excluding specified excluded assets). The total aggregate consideration payable by FYEO was £2.6 million and an amount payable for the stock and cash floats of each business following a valuation of those stock and cash floats. Under the agreement, the Company entered into a restrictive covenant, restricting its involvement in similar businesses to those sold for a specified period of time within specific areas;

(l) a sale and purchase agreement between the Company and A3D2 Limited (''A3D2'') dated 29 January 2004 pursuant to which A3D2 purchased various assets (including the licences, the trade fixtures and fittings and the property) located at Triton Court, 14 Finsbury Square, London EC2 1BR and Restaurant 3, Building 1, Minster Court, Mincing Lane, London EC3. A3D2 agreed to pay the aggregate sum of £1,250,000 (exclusive of VAT); and

(m) an irrevocable undertaking by Trafalgar Catalyst Fund in favour of the Company and City Financial Associates dated 2 April 2004 to vote in favour of the Scheme at the Court Meeting and in favour of the Resolutions to be proposed at the Extraordinary General Meeting in respect of its beneficial shareholding amounting to 16,011,907 Shares representing approximately 21.3 per cent. of the existing issued ordinary share capital of the Company.

5.2 The following contracts (not being contracts in the ordinary course of business) have been entered into by SFI Holdings within the two years immediately preceding the date of this document, or will be entered into immediately following implementation of the Proposals, and are, or may be, material:

(a) as a Restructuring Condition Precedent, SFI Holdings will grant security over all of its assets and undertaking (including the shares in the Company that it will hold following the Restructuring becoming effective) to Barclays Bank PLC as the security trustee for the Secured Parties (as defined in the Amended Facility Agreement) to secure certain liabilities, including of the indebtedness of the Borrowers under the Amended Facility Agreement and Amended Existing Approved Facilities Letter;

(b) as a Restructuring Condition Precedent, SFI Holdings will guarantee certain liabilities, including the liabilities of the Borrowers to the Secured Parties (as defined in the Amended Facility Agreement) under the Amended Facility Agreement and Amended Existing Approved Facilities Letter, and certain undertakings in favour of such Secured Parties; and

(c) SFI Holdings has adopted the EV Uplift Scheme which is designed to reward employees of the SFI Holdings Group who are holders of SFI Holdings C Shares if, by the time of a sale or flotation of SFI Holdings Shares, there has been an increase in the value of the business of the SFI Holdings Group (excluding debt) from a base value of £50 million but that increase has not been sufficient to give substantial value to SFI Holdings C Shares. In such circumstances, cash payments will be made under the EV Uplift Scheme equal to 5 per cent. of the growth in the value of the business over a base value of £50 million but reduced by an amount equal to the value of the SFI Holdings C Shares at that time. Payments would be made *pro rata* to participants' holdings of SFI Holdings C Shares. If the value of the SFI Holdings C Shares exceeds the amount which would be paid under the EV Uplift Scheme then no payments will be made. The EV Uplift Scheme may also pay out where the Company or the Company's business is sold. SFI Holdings C Shareholders who leave employment as ''Good Leavers'' may also be entitled to payment under the EV Uplift Scheme. The implementation of the EV Uplift Scheme is conditional upon the Proposals becoming effective.

6. Additional information

City Financial Associates has given and has not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which it is included.

7. Documents on display

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Eversheds LLP, Senator House, 85 Queen Victoria Street, London EC4V 4JL prior to the Scheme becoming effective:

(a) the Articles and the SFI Holdings Articles;

(b) the Audited Accounts;

(c) the irrevocable undertaking to vote in favour of the Scheme referred to in paragraph 6 of Part I of this document;

(d) the service agreements of the Directors referred to in paragraph 4 above;

(e) the material contracts referred to in paragraph 5 above;

(f) the Management Incentive Scheme;

(g) the EV Uplift Scheme;

(h) the October Circular; and

(i) this document.

PART VII

NOTICES OF SHAREHOLDER MEETINGS

NOTICE OF COURT MEETING

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
Mr REGISTRAR SIMMONDS

No. 2329 of 2004

IN THE MATTER OF SFI GROUP PLC

-and-

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an order dated 6 April 2004 made in the above matters the Court has directed a meeting to be convened of the Independent Shareholders (as defined in the Scheme hereinafter mentioned) in the capital of the above named SFI Group plc (the "Company") for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement (the "Scheme") proposed to be made between the Company and the holders of the Scheme Shares (as defined in the Scheme) and that such meeting will be held at the Chartered Insurance Institute Insurance Hall, 20 Aldermanbury, London EC2V 7HY on 7 May 2004, at 2.30 p.m. at which place and time all the Independent Shareholders are requested to attend.

A copy of the Scheme and a copy of the statement required to be furnished pursuant to Section 426 of the above-mentioned Act are incorporated in the document of which this notice forms part.

Independent Shareholders may vote in person at the said meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A white form of proxy marked with a grey flash for use at the said meeting is enclosed with this notice.

It is requested that forms appointing proxies be lodged with Computershare at The Pavilions, Bridgwater Road, Bristol BS13 8AE not less than 48 hours before the time appointed for the said meeting, but if forms are not so lodged they may be handed to the chairman at the meeting.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the joint holding.

Entitlement to vote at the meeting or any adjournment thereof, and the number of votes which may be cast thereat, will be determined by reference to the register of members of the Company at 6.00 p.m. on the day two days before the day of such meeting or adjourned meeting (as the case may be).

By the said order, the Court has appointed Stuart Lawson or, failing him, Timothy Andrews, to act as chairman of the said meeting and has directed the chairman to report the result thereof to the Court.

The said scheme of arrangement will be subject to the subsequent sanction of the Court.

Dated 7 April 2004

Eversheds LLP

SFI GROUP PLC

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of the Company will be held at 2.35 p.m. on 7 May 2004 at the Chartered Insurance Institute Insurance Hall, 20 Aldermanbury, London EC2V 7HY (or as soon thereafter as the Court Meeting (as defined in the document of which this Notice forms part) convened for 2.30 p.m. on the same day and same place, pursuant to an order of the High Court of Justice, shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolutions, of which Resolution 1 will be proposed as a special resolution and Resolution 2 will be proposed as an ordinary resolution:

1. SPECIAL RESOLUTION

1.1 THAT the scheme of arrangement dated 7 April (the ''Scheme'') between the Company and the Scheme Shareholders (each as defined in the Scheme), a print of which has been produced to this Meeting and signed for the purpose of identification by the Chairman of the Meeting, be and is hereby approved in its original form or with any modification thereof, addition or condition thereto imposed or approved by the Court;

1.2 for the purpose of giving effect to the scheme:

1.2.1 the capital of the Company be reduced by cancelling:

(i) the said Scheme Shares; and

(ii) the amount standing to the credit of the share premium account of the Company on the date upon which this resolution is passed together with such further amount as is credited to the share premium account as a consequence of the Debt Conversion (as defined in the document sent to shareholders of the Company dated 7 April 2004 (a print of which has been produced to this meeting and for the purposes of identification signed by the chairman thereof) (the ''Circular'')); and

1.2.2 subject to and forthwith upon the said reduction of capital taking effect:

(i) the capital of the Company be increased by the creation of 19,600,000 ordinary shares;

(ii) the reserve arising in the books of account of the Company as a result of the said reduction of capital be:

(a) capitalised and applied in paying up in full at par the 19,600,000 ordinary shares, referred to in paragraph 1.2.2(i) above, such ordinary shares to be allotted and issued credited as fully paid to SFI Holdings;

(b) applied in the issue of the Litigation Entitlements (as defined in the Circular); and

(c) credited to the Company's profit and loss account reserves; and

(iii) the directors of the Company be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the ''Act'') to allot the ordinary shares referred to in paragraph 1.2.2(i) above, provided that:

(a) the maximum nominal amount of shares which may be allotted hereunder is £4.9 million;

(b) this authority shall expire on 31 December 2007; and

(c) this authority shall be in addition and without prejudice to any other authority under the said Section 80 previously granted and in force on the date on which this resolution is passed;

1.3 with effect from the passing of this Resolution, the Articles of Association of the Company be altered by the inclusion of the following new Articles 179(1) to 179(5):

''179(1) In this Article 179, the ''Scheme'' means the Scheme of Arrangement dated 7 April 2004 between the Company and the holder of Scheme Shares (as defined in the Scheme) in its original form or with any modification, addition or condition approved or imposed by the Court. Expressions defined in the Scheme shall, save as herein otherwise provided, have the same meaning in this Article 179.

179(2) Notwithstanding any other provision of these Articles, if the Company:

(a) issues any Shares or B Shares (other than to SFI Holdings Limited (''SFI Holdings'')) after the Voting Record Time and before 6.00 p.m. on the day before the date on which the order of the Court is made sanctioning the Scheme, such shares shall be issued subject to the terms of the Scheme and the holders of such shares shall be bound by the Scheme accordingly; and

(b) issues any B Shares (other than to SFI Holdings) at or after 6.00 p.m. on the day before the date on which the order of the Court is made sanctioning the Scheme and before the order of the Court is made confirming the reduction of capital referred to in clause 1 of the Scheme, such shares shall be issued subject to the terms of the Scheme and the holders of such shares shall be bound by the Scheme accordingly.

179(3) Subject to the Scheme becoming effective, if any Shares and/or B Shares, other than B Shares which are bound by the Scheme according to the terms of Article 179(2)(b), are issued to any person (a ''new member'') other than under the Scheme or to SFI Holdings at or after 6.00 p.m. on the day before the date on which the order of the Court is made sanctioning the Scheme, the said shares (the ''Transfer Shares'') shall be issued on terms that they shall (on the Scheme Effective Date or, if later, on issue) be immediately transferred to SFI Holdings (the ''Transferee'') or its nominee(s) in consideration (subject as hereinafter provided) for the allotment and issue to the new member of such number of SFI Holdings A Shares as that new member should have been entitled to had each Transfer Share been a Scheme Share.

179(4) The SFI Holdings A Shares issued to the new member pursuant to Article 179(3) shall be credited as fully paid and shall rank *pari passu* in all respects with all other SFI Holdings A Shares in issue at that time (other than as regards any dividend or other distribution payable by reference to a record date preceding the date of allotment) and shall be subject to the Memorandum and Articles of Association of the Transferee.

179(5) To give effect to any transfer of Transfer Shares, the Company may appoint any person as attorney for the new member to transfer the Transfer Shares to the Transferee and/or its nominee(s) and do all such other things and execute and deliver all such documents as may in the opinion of the attorney be necessary or desirable to vest the Transfer Shares in the Transferee or its nominee(s) and pending such vesting to exercise all such rights attaching to the Transfer Shares as the Transferee may direct. If an attorney is so appointed, the new member shall not thereafter (except to the extent that the attorney fails to act in accordance with the directors of the Transferee) be entitled to exercise any rights attaching to the Transfer Shares unless so agreed by the Transferee. The Company shall not be obliged to issue a certificate to the new member for the Transfer Shares.'';

1.4 with effect from the passing of this Resolution:

1.4.1 the Directors be generally and unconditionally authorised for the purposes of Section 80 of the Act to allot 10 ordinary shares provided that:

(i) this authority shall expire on 31 December 2007; and

(ii) this authority shall be in addition and without prejudice to any authority under the said Section 80 previously granted and in force on the date on which this resolution is passed;

1.4.2 pursuant to and during the period of the said authority the Directors be empowered to allot the said ordinary shares wholly for cash as if Section 89(1) of the Act did not apply to any such allotment; and

1.4.3 words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

1.5 the Debt Conversion (as defined in the Circular) be approved;

1.6 for the purpose of giving effect to the Debt Conversion:

1.6.1 the authorised share capital of the Company be increased by £90,094,125.60 by the creation of:

(i) 450,470,628 B Shares of 10 pence each (the ''B Shares''); and

(ii) 450,470,628 C Shares of 10 pence each (the ''C Shares'');

1.6.2 the Articles of Association be amended by the deletion of Article 3 and the insertion of a new Article 3 as follows:

"The share capital of the Company is £90,119,125.60 divided into 100,000,000 ordinary shares of 25 pence each, 450,470,628 B Shares of 10 pence each (the "B Shares") and 450,470,628 C Shares of 10 pence each (the "C Shares")"; and

1.6.3 the Articles of Association of the Company be altered by the adoption and inclusion of the following new Articles 8A and 8B:

"8A The B Shares shall have all the rights of an ordinary share as set out in these Articles, save that:

(i) the holder of a B Share shall not be entitled, otherwise than pursuant to the Scheme, to receive a dividend nor to have any other right of participation in the profits of the Company;

(ii) the holder of a B Share shall have no right to attend or vote at any general meeting of the Company;

(iii) on a return of capital on the winding-up of the Company or otherwise, the holder of a B Share shall be entitled, subject to the payment to the holders of all other classes of shares of the amount paid up on such shares, to a repayment of the capital paid up on a B Share, but shall have no further rights of participation in the assets of the Company.

8B(1) Subject to this Article 8B, a B Share in issue shall be converted into a C Share on a one for one basis:

(i) automatically upon the transfer of a B Share to any person (other than a subsidiary of that person, a holding company of that person or any other subsidiary of that holding company (each such person being an "Affiliate")); or

(ii) upon written request delivered to the Company by a holder of B Shares (a "Conversion Notice").

8B(2) A Conversion Notice shall be given to the Company at its registered office and shall be accompanied by the share certificates for the B Shares to be converted (or an appropriate indemnity if such certificates are not available). Subject to Article 8B(3), a Conversion Notice shall take effect immediately upon its delivery. A Conversion Notice may not be withdrawn without the written consent of the Company.

8B(3) A Conversion Notice will be deemed not to have been given and will not be effective to the extent that it would result in the relevant holder of B Shares (the "Converting B Shareholder") and its Affiliates holding more than 17.5 per cent. of the voting rights exercisable at a general meeting of the Company upon conversion of B Shares pursuant to Article 8B(1)(ii). The Conversion Notice shall contain a statement from the Converting B Shareholder as to whether conversion of the relevant B Shares would result in the Converting B Shareholder and its Affiliates holding more than 17.5 per cent. of the voting rights exercisable at a general meeting of the Company (the "Conversion Statement").

8B(4) The Company shall be entitled to rely on the Conversion Statement as to whether the conversion would result in the Converting B Shareholder and its Affiliates holding more than 17.5 per cent. of the voting rights exercisable at a general meeting of the Company. If it is subsequently determined that a Conversion Statement was incorrect then such number of C Shares held by the Converting B Shareholder as a result of the conversion of B Shares pursuant to Article 8B(1)(ii) as exceeds the threshold referred to in Article 8B(3) shall, upon the direction of the Directors and with the consent of the B Shareholder or at the request of the B Shareholder, be converted into B Shares and the Company shall take such actions as are required to effect the same.

8B(5) Upon conversion of any B Shares under Article 8B(1)(ii) and subject to the provisions of the Act and this Article 8B, the Company shall enter the names of the holders of the B Shares converted as the holders of the relevant C Shares resulting from conversion in the Register and, subject to delivery to the Company of the certificate(s) for the B Shares to be converted (or an appropriate indemnity if they are not available), issue to the holder a certificate for the C Shares resulting from the conversion.

8B(6) In the event of an automatic conversion under Article 8B(1)(i), the relevant B Shares shall convert automatically without further action by the holders of those shares and whether or not the certificates (or an appropriate indemnity, if such certificates are not available) representing such shares are surrendered to the Company. The Company, however, shall not be required to issue certificates evidencing the C Shares arising upon conversion of the B Shares unless the relevant shareholder delivers to the Company, at its registered office, the certificate(s) for its B Shares so converted (or an appropriate indemnity if they are not available).

8B(7) The C Shares shall have all the rights of an ordinary share as set out in these Articles including as to dividends, voting and to equal payment on a winding up.

8B(8) The C Shares arising from conversion of the B Shares pursuant to this Article 8B shall rank *pari passu* in all respects with the ordinary shares then in issue. For the purposes of these Articles, any C Shares arising on conversion of B Shares shall be deemed to be issued on the date of conversion.

8B(9) The Company shall at all times reserve and keep available out of its authorised but unissued share capital, solely for the purpose of effecting the conversion of B Shares, such number of C Shares as shall from time to time be sufficient to effect the conversion of all outstanding B Shares.'';

1.7 with effect from the passing of this Resolution:

1.7.1 the Directors be generally and unconditionally authorised for the purposes of Section 80 of the Act to allot the B Shares and the C Shares provided that:

(i) this authority shall expire on 31 December 2007; and

(ii) this authority shall be in addition and without prejudice to any authority under the said Section 80 previously granted and in force on the date on which this resolution is passed;

1.7.2 pursuant to and during the period of the said authority the Directors be empowered to allot the said B Shares wholly for cash as if Section 89(1) of the Act did not apply to any such allotment;

1.7.3 words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution; and

1.8 subject to confirmation by the Court of the Reduction of Capital (as defined in the Circular) and the amendments to the Existing Facilities (as defined in the Circular) becoming effective:

Regulation 99(2) of the Articles of Association of the Company be reinstated and immediately thereafter amended so that the words ''twice the aggregate of the Adjusted Capital and Reserves as herein defined'' be deleted and replaced with:

''four times the aggregate of the Adjusted Capital and Reserves as herein defined or £100 million, whichever is the greater''.

2. ORDINARY RESOLUTION

THAT the report and financial statements for the year ended 31 May 2003 be received.

By order of the Board

Edward Lavelle
Company Secretary
7 April 2004

Registered office:
SFI House
165 Church Street East
Woking
Surrey GU21 1HJ

Notes:

1. Members of the Company entitled to attend and vote at the meeting are entitled to appoint a proxy or proxies to attend and vote in their place. A proxy need not be a member of the Company. Completion and return of a proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a duly certified copy thereof, must be lodged with Computershare of The Pavilions, Bridgwater Road, Bristol BS13 8FB not less than 48 hours before the time of the meeting or any adjournment of the meeting.
3. Shareholders must be entered on the Company's register of members at 6.00 p.m. on the day two days before the day of the meeting or adjourned meeting in order to be entitled to attend and vote at the Extraordinary General Meeting. Such shareholders may only cast votes in respect of the shares held at such time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any persons to attend or vote at the meeting.

PART VIII

DEFINITIONS

The following definitions apply throughout this document other than in Part III and Part VII, which contain separate definitions, unless the context requires otherwise:

"Additional Approved Facility"	the sterling term loan facility in the amount of £7.5 million dated 20 December 2002 between the Company and Barclays Bank PLC (as original bilateral lender)
"AIM"	the Alternative Investment Market of the London Stock Exchange
"Approved Facilities"	the Existing Approved Facilities and the Additional Approved Facilities
"Articles"	the articles of association of the Company as amended from time to time
"Audited Accounts"	the accounts of the Company for the financial year ended 31 May 2003, the directors' report for that period and the auditor's report (and including restated prior year comparatives)
"B Shares"	Class B shares of 10p each in the capital of the Company
"Banks"	each of Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc, Fortis Bank S.A./N.V., Alliance & Leicester Commercial Bank plc and The Governor and Company of the Bank of Scotland
"Board"	the board of directors of the Company
"business day"	a day on which banks generally are open for the transaction of normal banking business in the City of London (excluding Saturdays and Sundays)
"City Code"	the City Code on Takeovers and Mergers
"City Financial Associates"	City Financial Associates Limited
"Companies Act"	the Companies Act 1985 (as amended)
"Company"	SFI Group plc, a public company incorporated in England and Wales with registered number 01946949
"Computershare"	Computershare Investor Services plc
"Court"	the High Court of Justice in England and Wales
"Court Hearing"	the hearing of the petition to sanction the Scheme
"Court Meeting"	the meeting of the Independent Shareholders summoned by order of the Court pursuant to Section 425 of the Companies Act to consider and, if thought fit, approve the Scheme, including any adjournment thereof, notice of which is set out in Part VII of this document
"Court Sanction"	the Court sanction of the Scheme at the Court Hearing
"CREST"	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Uncertificated Securities Regulations
"CRESTCo"	CRESTCo Limited, the operator of CREST
"Debt Conversion"	the discharge of the Debt Conversion Amount in consideration for the issue of B Shares in the Company to the Banks
"Debt Conversion Amount"	£83.4 million owed by the Company to the Banks comprising: (i) indebtedness of the Company under the Syndicated Facility and Approved Facilities of £68.6 million; (ii) rolled up interest and unpaid

	fees of £10.5 million; and (iii) amounts owing pursuant to the termination of the Hedging Agreements of £4.3 million
"Determination Date"	the date on which the Company's auditors notify the Company of their final determination of the Net Litigation Proceeds and the Relevant Litigation Proceeds
"Directors"	the directors of the Company
"EV Uplift Scheme	the enterprise value uplift cash scheme, details of which are set out in paragraph 2.4 of Part II of this document
"Executive Director"	Stuart Lawson
"Existing Approved Facilities"	the bilateral credit, overdraft and ancillary facilities agreements entered into between Barclays Bank PLC and the Company dated 19 and 20 December 2002, as amended from time to time
"Existing Facilities"	the Syndicated Facility, the Approved Facilities and the Hedging Agreements
"Extraordinary General Meeting"	the extraordinary general meeting of the Company, notice of which is set out in Part VII of this document, and any adjournment of that meeting
"Form of Proxy"	the white Form of Proxy marked with a grey flash for use at the Court Meeting or the white Form of Proxy for use at the Extraordinary General Meeting as the context may require, and the notes thereon, and "Forms of Proxy" shall mean both of them
"FSA"	the Financial Services Authority
"Group Company"	in respect of any company, its subsidiaries and parent companies, and any subsidiaries of its parent companies
"HCW"	Horwath Clark Whitehill, the Company's former auditors
"HCW Claim"	the potential claim against HCW details of which are set out in paragraph 10 of Part I of this document
"Hedging Agreements"	the interest rate swaps entered into between the Company and Barclays Bank PLC and The Royal Bank of Scotland plc and any agreement to cancel, or in connection with the cancellation of, such interest rate swaps
"Historic Accounting Discrepancies"	the historic accounting discrepancies which were the subject of the independent investigation carried out in 2003 and/or the restated accounts for the year ended 31 May 2002 contained in the audited accounts of the Company for the year ended 31 May 2003
"in certificated form"	not in uncertificated form
"Independent Shareholder"	a holder of Shares not all of which are beneficially owned by any Bank or any of their respective Group Companies
"Investment Agreement"	the Investment Agreement details of which are set out in paragraph 5.1(e) of Part VI of this document
"Issue of Litigation Entitlements"	the issue of Litigation Entitlements to Shareholders by way of the Scheme described in this document in part consideration for the cancellation of their Shares
"Litigation"	any litigation including, for the avoidance of doubt, other dispute resolution procedures, brought or threatened by the Company in which damages are claimed as a result either of the existence of the Historic Accounting Discrepancies or as a result of conduct (whether acts or omissions) alleged to have caused or contributed to their existence

"Litigation Certificate"	a certificate to be issued by the Company to a Litigation Entitlement Holder setting out the number of Litigation Entitlements held by the Litigation Entitlement Holder
"Litigation Entitlement"	an entitlement, subject to the terms of the Litigation Entitlement Instrument, to an amount equal to the Litigation Entitlement Amount multiplied by the Relevant Net Litigation Proceeds
"Litigation Entitlement Amount"	one divided by 75,078,438 or by, if different, the number of Shares held by holders of Ordinary Scheme Shares on the register of members at the Record Time
"Litigation Entitlement Holder"	a holder of Litigation Entitlements
"Litigation Entitlement Instrument"	the instrument constituting the Litigation Entitlements executed as a deed by the Company prior to the Court Hearing
"Litigation Proceeds"	the proceeds received by the Company of any Litigation
"London Stock Exchange"	the London Stock Exchange plc or any recognised investment exchange for the purposes of the Financial Services and Markets Act 2000 which may take over the function of the London Stock Exchange plc
"Management Incentive Scheme"	the acquisition of SFI Holdings C Shares by certain employees of the Company, the Executive Director, the Proposed Director and a SFI Holdings employee benefit trust, details of which are set out in paragraph 2.4 of Part II of this document
"members"	members of the Company on the register of members at any relevant date
"Net Litigation Proceeds"	the Litigation Proceeds net of all costs incurred by the Company in connection with the Litigation (or settlement thereof) including the costs of all advisers, consultants, settling or meeting any counterclaims (together the "Litigation Costs"), any corporation or other tax liability which may arise in relation to any such proceeds (before taking into account any relief, including losses, which might be available to the Company to reduce such liability other than any such relief or deduction derived directly from the Litigation Costs), in each case as certified by the Company's auditors
"October Circular"	the circular from the Company to its shareholders dated 6 October 2003
"Optionholder"	a holder of options under the SFI Share Option Schemes
"Ordinary Scheme Shares"	a Scheme Share which is a Share
"Overseas Shareholders"	Scheme Shareholders who are citizens, residents or nationals of jurisdictions outside the United Kingdom
"Post-Restructuring Debt"	£70 million in principal under the Syndicate Facility and up to £10 million under the Existing Approved Facilities
"Proposals"	the Restructuring, the Debt Conversion, the Reduction of Capital and the Issue of Litigation Entitlements
"Proposed Director"	Edward Lavelle
"Record Time"	6.00 p.m. on the business day before the Scheme Effective Date
"Recovery Plan"	the recovery plan for the Company as proposed by the Management and as referred to in the October Circular and more particularly described in paragraph 7 of Part I of this document
"Recovery Plan Period"	the period from September 2003 to May 2006
"Reduction of Capital"	the reduction of capital and the cancellation of the share premium account of the Company referred to in clause 1 of the Scheme

"Registrar of Companies"	the registrar of companies in England and Wales
"Relevant Net Litigation Proceeds"	(i) 12.5 per cent. of the Net Litigation Proceeds; less (ii) all administrative costs of: maintaining the register of Litigation Entitlement Holders, issuing Litigation Certificates, making payments to the Litigation Entitlement Holders and/or otherwise arising out of the Litigation Entitlements, in each case as determined by the Board in its absolute discretion
"Resolutions"	the resolutions set out in the notice of Extraordinary General Meeting contained in this Part VII of this document
"Restructuring"	the proposed introduction of SFI Holdings as the ultimate holding company of the SFI Group by way of the Scheme described in this document
"Scheme"	the scheme of arrangement under Section 425 of the Companies Act set out in Part III of this document in its present form or with or subject to any modification, addition or condition approved or imposed by the Court
"Scheme Effective Date"	the date at which the Scheme becomes effective, expected to be 28 May 2004
"Scheme Shareholder"	a holder of Scheme Shares at 6.00 p.m. on the Business Day before the Scheme Effective Date
"Scheme Shares"	(i) the Shares and B Shares in issue at the date of the Scheme; (ii) any Shares and B Shares issued after the date of the Scheme and before the Voting Record Time; (iii) any Shares and B Shares issued at or after the Voting Record Time and before 6.00 p.m. on the day before the date on which the order of the Court is made sanctioning this Scheme in respect of which the original or any subsequent holders thereof are, or shall by such time have agreed in writing to be, bound by this Scheme; and (iv) any B Shares issued at or after 6.00 p.m. on the day before the date on which the order of the Court is made sanctioning this Scheme and before the order of the Court is made confirming the Reduction of Capital, in respect of which the original or any subsequent holders thereof are, or shall by such time have agreed in writing to be, bound by this Scheme, in each case other than any Shares beneficially owned by SFI Holdings
"SEC"	the US Securities and Exchange Commission
"Second Court Hearing"	the hearing of the petition to confirm the Reduction of Capital
"SFI Group"	the Company and its subsidiary undertakings from time to time, and "SFI Group Company" means any one of them
"SFI Holdings"	SFI Holdings Limited, incorporated in England and Wales with registered number 5095347
"SFI Holdings A Shares"	Class A shares of 0.0167p each in the capital of SFI Holdings
"SFI Holdings Articles"	the articles of association of SFI Holdings
"SFI Holdings B Shares"	Class B shares of 0.0167p each in the capital of SFI Holdings
"SFI Holdings C Shares"	Class C shares of 0.0167p each in the capital of SFI Holdings
"SFI Holdings Directors"	the directors of SFI Holdings
"SFI Holdings Group"	SFI Holdings and its subsidiary undertakings

"SFI Holdings Shareholder"	a holder of SFI Holdings Shares
"SFI Holdings Shares"	SFI Holdings A Shares, SFI Holdings B Shares and SFI Holdings C Shares, or any of them as the context requires
"SFI Holdings Voting Shares"	the SFI Holdings A Shares and the SFI Holdings C Shares
"SFI Share Option Schemes"	the Inland Revenue approved share option scheme adopted by ordinary resolution on 21 December 1987 and the SFI Group plc 1997 share option scheme
"Shareholder"	a holder of Shares
"Shareholder Meetings"	the Court Meeting and the Extraordinary General Meeting
"Shares"	ordinary shares of 25p each in the capital of the Company
"subsidiary undertaking"	has the meaning ascribed to it in the Companies Act
"Support Agreement"	the support agreement, details of which are set out in paragraph 5.1(a) of Part VI of this document
"Syndicated Facility"	the £133,708,523 secured multicurrency term facilities agreement dated 27 June 2000 as amended and restated between, amongst other persons, the Company and the Banks
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"uncertificated form"	recorded on the relevant register as being held in uncertified form in CREST and title to which may be transferred by means of CREST by virtue of the Uncertificated Securities Regulations
"Uncertificated Securities Regulations"	the Uncertificated Securities Regulations 2001
"US" or "United States"	the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia
"US Securities Act"	the US Securities Act of 1933, as amended
"Voting Record Time"	6.00 p.m. on the day which is two days before the date of the Court meeting or, if the Court meeting is adjourned, 6.00 p.m. on the day which is two days before the date for any such adjourned meeting

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