

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about its contents you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. The whole text of this document should be read. You should be aware that an investment in the Company involves a high degree of risk.**

The Directors of Playgolf (Holdings) plc, whose names appear on page 3 of this document (and whose business addresses are the same as the registered office of Playgolf (Holdings) plc as appears on page 3 on this document), accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the rules for AIM published by the London Stock Exchange plc (the "AIM Rules"). To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. In connection with this document and/or the invitation contained in it, no person is authorised to give any information or make any representation other than contained in this document.

Application has been made for the Existing Ordinary Shares and the New Ordinary Shares to be admitted to trading on the AIM market of the London Stock Exchange plc ("AIM"). It is expected that Admission will take place and that trading will commence on 14 July 2004.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those of the Official List of the UK Listing Authority. Further, neither the United Kingdom Listing Authority nor the London Stock Exchange plc have examined or approved the contents of this document. The Ordinary Shares are not dealt in on any other recognised investment exchange and no applications for such dealings have been made.**

A copy of this document, which comprises a prospectus drawn up in accordance with the requirements of the Public Offers of Securities Regulations 1995, as amended, (the "POS Regulations") and the AIM Rules, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with regulation 4(2) of the POS Regulations.

**YOUR ATTENTION IS DRAWN TO THE RISK FACTORS SET OUT IN PART I OF THIS DOCUMENT.**

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## **Playgolf (Holdings) plc**

*(Registered in England and Wales with registered number 02836921)*



### **Placing of up to 12,000,000 New Ordinary Shares**

**at 16 $\frac{2}{3}$ p per new Ordinary Share**

**and**

**admission to trading on AIM**

Nominated Adviser and Stockbroker:

**Daniel Stewart & Company PLC**

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Daniel Stewart & Company PLC, which is authorised and regulated by the Financial Services Authority, is acting as nominated adviser and broker to the Company in connection with the proposed admission of the Existing Ordinary Shares and the New Ordinary Shares to trading on AIM. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by Daniel Stewart & Company PLC as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). Daniel Stewart & Company PLC will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document or for advising them on the contents of this document or any other matter.

The Placing Shares have not been, nor will they be, registered under the United States Securities Act of 1933 (as amended). Accordingly, such shares may not be offered, sold, renounced, taken up or delivered, directly or indirectly, in or into the United States.

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## ADMISSION STATISTICS

Placing Price	16½p
Number of Ordinary Shares being placed	
– on behalf of the Company up to	12,000,000
– on behalf of the Vendors up to	3,000,000
Proportion of enlarged issued share capital being issued under the Placing	25.0 per cent.
Number of Ordinary Shares in issue on Admission	47,987,410
Market capitalisation on Admission at the Placing Price	£8.0 million
Estimated net proceeds of the Placing to be received by the Company (not taking VAT into account)	£1.65 million

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Date of this document	5 July 2004
Admission and dealings commence in the Ordinary Shares on AIM	14 July 2004
CREST accounts credited by	14 July 2004
Despatch of definitive share certificates by	19 July 2004

## DIRECTORS AND ADVISERS

<b>Directors:</b>	William Frewen <i>Non Executive Chairman</i> David Piggins <i>Chief Executive</i> Hugh Fox <i>Finance Director</i> Christopher Meadows <i>Operations Director</i>
<b>Company Secretary:</b>	Hugh Fox
<b>Registered Office:</b>	Westfield House School Lane Priors Marston Warwickshire CV47 7RR
<b>Nominated Adviser and Stockbroker:</b>	<b>Daniel Stewart &amp; Company PLC</b> 48 Bishopsgate London EC2N 4AJ
<b>Auditors and Reporting Accountants:</b>	<b>haysmacintyre</b> Fairfax House 15 Fulwood Place London WC1V 6AY
<b>Solicitors to the Company:</b>	<b>Bird &amp; Bird</b> 90 Fetter Lane London EC4A 1JP
<b>Solicitors to the Placing:</b>	<b>Beachcroft Wansbroughs</b> 100 Fetter Lane London EC4A 1BN
<b>Registrars:</b>	<b>Capita Registrars</b> The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Bankers:</b>	<b>Anglo Irish Bank Corporation plc</b> Ground Floor Bartle House 9 Oxford Court Manchester M2 3PA

## DEFINITIONS

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

“Act”	the Companies Act 1985 (as amended)
“Admission”	the effective admission to trading on AIM of the Existing Ordinary Shares and the New Ordinary Shares
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the rules for AIM published by the London Stock Exchange
“Articles”	the articles of association of the Company
“Board” or “Directors”	the directors of the Company as at the date of this document
“Combined Code”	the Principles of Good Governance and Code of Best Practice issued by the London Stock Exchange
“Company” or “Playgolf”	Playgolf (Holdings) plc
“CREST”	the computerised settlement system to facilitate the transfer of title to shares in uncertificated form, operated by CRESTCo Limited
“Daniel Stewart”	Daniel Stewart & Company PLC
“Document” or “Prospectus”	this document
“Existing Ordinary Shares”	the 35,987,410 Ordinary Shares in issue immediately prior to Placing
“Financial Services and Markets Act” or “FSMA”	the Financial Services and Markets Act 2000
“FSA”	the Financial Services Authority, the single statutory regulator under FSMA
“Group”	the Company and its subsidiaries, Playgolf Limited, Playgolf (Heaton Park) Limited, Playgolf (Barnet Cophall) Limited, Golf Learning Centres Limited, Playgolf (Trafford Centre) Limited, Playgolf (Northwick Park) Limited and Work For Fun Limited
“Lock-In Agreement”	the lock-in agreement dated 5 July 2004 between Daniel Stewart (1) the Directors (2) and the Company (3) relating to the holding and orderly market arrangements for Ordinary Shares, details of which are set out in paragraph 5 of Part IV of this Document
“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	up to 12,000,000 new Ordinary Shares to be issued pursuant to the Placing
“Ordinary Shares”	ordinary shares of 0.2p each in the capital of the Company
“Placing”	the placing by Daniel Stewart on behalf of the Company of the New Ordinary Shares and on behalf of the Vendors of the Vendor Shares at the Placing Price, pursuant to the Placing Agreement

“Placing Agreement”	the conditional agreement dated 5 July 2004 between Daniel Stewart (1) the Directors (2) the Company (3) relating to the Placing, details of which are set out in paragraph 5 of Part IV of this Document
“Placing Letter”	the letter from Daniel Stewart on behalf of the Company to be signed by each investor wishing to subscribe for Placing Shares pursuant to the Placing and setting out the terms on which they will agree to subscribe
“Placing Price”	16½p per Placing Share
“Placing Shares”	the Vendor Shares and the New Ordinary Shares that are the subject of the Placing
“POS Regulations”	the Public Offers of Securities Regulations 1995 (SI 1995/1537), as amended
“Shareholders”	holders of Ordinary Shares
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the United Kingdom Listing Authority, being the FSA, acting in its capacity as the competent authority for the purposes of FSMA
“Vendors”	Hugh Fox, David Piggins, William Frewen, Christopher Meadows and Sunley Family Limited
“Vendor Shares”	up to 3,000,000 Ordinary Shares being sold by the Vendors pursuant to the Placing
“Warrant Instrument”	the warrant instrument entered into by the Company on 5 July 2004, details of which are set out in paragraph 5 of Part IV of this Document
“Warrants”	warrants to subscribe for Ordinary Shares on the terms of the Warrant Instrument

## PART I

### INFORMATION ON THE GROUP

#### OVERVIEW

Playgolf is an owner and/or operator of golfing facilities in London and Manchester. The facilities are located near high-density urban areas, and include golf courses, driving ranges, coaching facilities, retail outlets, and restaurants or a combination of these. The Group currently owns and operates two driving ranges, and has management contracts for two 18 hole golf courses.

The Company has also devised a formula for urban golf, themed as 'golf in an hour'. The first 'golf in an hour' facility is currently under construction in Harrow, London and will comprise a 6 hole 'signature' golf course, a modern high quality 60 bay golf driving range, a golf school, a short game academy, an adventure golf course, other sports facilities, as well as retail, bar/restaurant and meeting facilities. The concept of golf in an hour has been described by the President of the Golf Range Association of America as 'one of the global game's most important developments'. Complexes of a similar nature in major UK urban locations will form the basis of the Company's future expansion.

#### BACKGROUND

David Piggins founded Playgolf in 1993. The Company initially concentrated on working in partnership with local authorities to upgrade and operate municipal golf facilities. Relationships included East Yorkshire Borough Council and Manchester City Council.

The Group acquired a private golf club in Leeds in 1998. The club has now been sold, but while it was owned and run by the Group it provided an insight into that aspect of the golf industry and the financial implications of running a privately owned course.

In 1997, the Company was approached by Peel Holdings plc, the owners of the Trafford Centre in Manchester, to consider a leisure solution to a twenty acre site adjacent to junction 10 of the M60, one of the access points to The Trafford Centre. This resulted in the opening of Playgolf Manchester in December 2000.

In 2001 the Company was approached by Brent Council regarding a proposed development in Northwick Park, Harrow which led to the commencement of development of Playgolf's first urban golf complex in 2003.

In January 2004 the Company acquired Metro Golf, a facility in Hendon, North London, comprising a two tier driving range, golf school, par three course, restaurant and shop.

#### CURRENT FACILITIES

##### *Heaton Park*

Located in north Manchester, the Group's operations at Heaton Park consist of an 18-hole, JH Taylor designed golf course, an 18-hole pitch & putt course, and a golf pavilion. The Group entered into a 9½-year management agreement with Manchester City Council to operate the Heaton Park Golf Centre in 1996. In 1998 the contract was extended to become a 20-year profit sharing agreement. The Company is currently negotiating a further extension to the length of the agreement and to extend the existing facilities to include an adventure golf course.

##### *Playgolf Manchester*

Playgolf Manchester is a modern, high quality, two-tier driving range, located by Junction 10 of the M60 motorway, near the Trafford Centre retail and leisure complex. It also has a coaching facility, along with a major golf superstore, conference capabilities and a sports bar/cafe. During 2003, approximately 100,000 visitors attended Playgolf Manchester, hitting over 11½ million balls. Approximately 13,000 golf lessons were given at the facility that year. The centre was opened by Lee Westwood and visitors have included Ernie Els.

### *Playgolf Metro*

Playgolf acquired Golf Learning Centres Limited (trading as “Metro Golf”), based in Barnet Copthall, in January 2004. Metro Golf opened in 1997. Christopher Meadows, previously CEO of Metro Golf, is now the Operations Director of the Group. The facility at Barnet Copthall comprises a 48 bay, two tier floodlit driving range, a compact 9-hole (par three) course designed for all standards of golfer, a children’s golf course and a family putting complex, a pro shop, a restaurant and a coaching facility which is fitted with large insulated doors, allowing the area to be converted rapidly from an outdoor to an indoor environment, and houses advanced teaching aids.

### *Northwick Park, Harrow*

Construction of Playgolf’s first ‘urban golf centre’, at Northwick Park in Harrow, began in July 2003. The course itself is now almost complete, and the whole site is expected to be fully operational by the summer of 2005.

The course is designed to allow golfers to play a game of golf in around an hour, and will cater for all levels of golfer. It was designed by Peter McEvoy and is being built to USGA specifications. It will comprise a 6 hole signature golf course with holes inspired by Riviera, Ganton, Royal Birkdale, Royal Troon, Oakhill and Augusta. The site also consists of a modern, high quality 60 bay two tier golf driving range, a short game academy, a children’s golf course and family putting complex, restaurant, retail outlets, conferencing facilities and a range of additional sports facilities, including baseball-batting cages. Northwick Park will be the future home of the Middlesex County Golf Union and Baseball/Softball UK, the governing body of baseball and softball in the UK. Discussions are being held with a view to the centre being the Southern Coaching Base of the English Golf Union and a coaching centre for the Golf Foundation, the official body for junior golf.

## **INDUSTRY**

The Board believes that in recent years the combination of increased media exposure, young professional golfing celebrities and brand participation has extended the appeal of golf to a much wider audience. The Directors believe however that much of the existing provision of facilities in the UK fails to cater for newcomers to the game. Municipal facilities generally have no coaching capacity and are often in poor condition, and compare unfavourably with other modern leisure attractions. Private members clubs do not generally welcome those who cannot play the game and have traditionally been less than enthusiastic about women and children golfers.

There are very few high quality practising and learning centres as a whole in the UK and even fewer that are situated close to major urban populations. Time is also a prohibitive issue for the game with rounds typically taking over 4½ hours.

## **COMPETITION**

Unlike many other leisure activities such as health and fitness, the barriers to entry in the urban golf market are significant and as a result competition is limited. Traditional providers, such as local authorities, no longer have the financial resource to develop new facilities. Some local authorities now seek to outsource their leisure provision including golfing facilities.

Playgolf has historically focussed on the local authority market and has built up a long track record as a provider of golf services to the community through partnerships with local authorities. As a result Playgolf is well placed to work in the future with local authorities to improve derelict urban open space, such as Northwick Park, for the benefit of the community as a whole. With planning designation for this kind of land prohibiting development for anything other than outdoor recreation, competition from other forms of development is not possible.

Playgolf has also developed close links to various governing bodies in the sport. This enhances the Company’s credibility with planning authorities where leisure planning gain is often required for large-scale commercial developments.

The Directors believe that while the strategy of Playgolf is unique, the Company faces competition from other companies operating smaller golf driving ranges. However the Directors are of the opinion that the quality, diversity of activities and the scale of a Playgolf urban golf centre will ensure its success.

## STRATEGY

Playgolf's management are experienced developers and operators of golf facilities in the UK, having owned and run golf courses (both municipal and private) and driving ranges in the UK. Based on their experience the Directors believe that there is an opportunity to benefit from the increasing public interest in golf by providing compact complexes comprising modern facilities close to and within urban areas. The Group strategy is to operate and develop further urban golf centres, similar to the one under development at Northwick Park. The Directors expect that with the benefit of their experience from Northwick Park future urban golf centres will be developed on shorter time scales. The Group will also increase its expenditure on marketing its existing assets as well as increasing the marketing capability of the Group, which to date has been limited.

It is intended that the Group will open a site similar to Northwick Park in 2006, with two more following in 2007. Playgolf's new centres will offer a wide range of facilities surpassing the traditional golf club and will be more easily accessed by customers who will be able to play golf in around an hour on a high quality course. The sites will offer other facilities, operated by third parties, such as retail outlets and restaurants. These ancillary facilities will attract customers in their own right and will make a positive financial contribution to these urban golf centres and thereby reduce the cost of borrowing for the whole development.

## SUMMARY FINANCIAL INFORMATION

The following table sets out the key financial information relating to Playgolf and its subsidiaries, which has been extracted from the Accountants' Report set out in Part II of this document.

	<i>Period ending 31 December</i>		
	<i>2003</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	1,436	1,453	1,496
Gross Profit	912	940	812
Operating (Loss)/Profit	(84)	84	52
(Loss)/Profit after tax	(131)	(2)	42

## PLACING AND USE OF THE PROCEEDS

The Company is seeking to raise £2 million (before expenses) by way of the Placing. The New Ordinary Shares will represent 25.0 per cent. of the issued share capital of the Company on Admission. The net proceeds of the Placing are expected to be approximately £1.65 million (exclusive of VAT) and will be used by the Group to fund:

- the acquisition of property leases for new projects
- marketing of new and existing projects
- head office and other infrastructure costs
- the Group's working capital requirements for the next 12 months following Admission.

In addition, and as part of the Placing, the Vendors are selling up to 3,000,000 Ordinary Shares, at the Placing Price and representing 6.3 per cent. of the expected issued ordinary share capital of the Company on Admission.

## CURRENT TRADING AND PROSPECTS

Satisfactory progress has been made through the current financial year. Work on the six hole course at Northwick Park is nearly complete and the construction of the main building is expected to begin in July. The Directors have identified a further two sites as possible locations for future urban golf complexes and hope to begin preliminary negotiations in the next few months.

## **RISK FACTORS**

**In addition to the other relevant information set out in the Document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The investment offered in the Document may not be suitable for all of its recipients. If you are in any doubt about the action you should take, you should consult a person authorised under the Financial Services and Markets Act who specialises in advising on the acquisition of shares and other securities.**

### *Investment risk and AIM*

Potential investors should be aware that the value of shares can go down as well as up and that an investment in a share which is to be traded on AIM may be less realisable and may carry a higher degree of risk than an investment in a share quoted on the Official List of the UK Listing Authority. The price which investors may realise for their holding of Ordinary Shares, and when they are able to do so, may be influenced by a large number of factors, some of which are specific to the Group and others of which are extraneous. It may be difficult for an investor to sell his or her Ordinary Shares and he or she may receive less than the amount paid by him or her for them. The Ordinary Shares may not be suitable for short-term investment.

### *Key Personnel*

The Group is dependent on key members of staff and the loss of these key members for any reason could significantly affect the Company in the short to medium term. There is a risk that the Company may have difficulty in retaining or recruiting personnel with appropriate skills that are essential to the implementation of the Group strategy.

### *Requirement for Further Funds*

The existing resources of the Group and the funds pursuant to the Placing may not be sufficient to allow the Group to exploit new opportunities. It may therefore be necessary for the Company to raise further funds in the future, which may be by way of issue of further Ordinary Shares.

### *Ability to find sites*

In order to implement its strategy the Group must locate and negotiate appropriate contracts for the use of sites for additional urban golf centres. The appropriate location for such a site is critical to its success. Although the Directors believe that they will be able to acquire appropriate sites in the future no contracts have yet been entered into. In addition, the availability of such sites for development by the Company may be adversely affected by Government and/or local authority legislation, including planning laws.

### *Income from related activities*

A significant proportion of the Group's income is expected to be derived from the restaurant, golf superstore, baseball and softball and other ancillary facilities to be opened at Northwick Park and other future sites. Whilst preliminary discussions with potential providers of these services are in progress, the precise terms of such arrangements have not been finalised. If agreement is not reached with such providers on the terms or within the timetables expected the Company may need to make alternative arrangements. In addition, there can be no guarantee that the revenue to be derived from such arrangements will meet the Directors' expectations. Whilst the Directors have no reason to believe that such will be the case, in either event, there could be an adverse affect on the financial performance of the Group.

### *Income from Trafford Centre Underlease*

The landlord of Playgolf Manchester's facility has agreed over recent years to accept a fixed rent at the site instead of relying on the strict terms of its lease which provide for rent to be calculated with reference to turnover. The agreement which reflects this variation will terminate on the last payment of rent in 2004. The Directors believe that the rent provisions, as varied, will continue to apply beyond this point and have commenced discussions with the landlord to that effect. If the landlord were to insist on adherence to the terms of the lease, that would have a material adverse effect on the finances of Playgolf Manchester.

### *Adverse Weather Conditions*

As golf is an outdoor sport and the vast majority of the Group's facilities are outdoor the Group's ability to keep its facilities open is dependent upon the weather. Unusually adverse weather conditions could see the closure of some/all of the Group's facilities during such periods and consequent loss of income.

### *Planning Permission at Northwick Park*

The Group currently has planning permission to erect a ten metre high fence as part of the planned driving range at Northwick Park. The Directors do not consider that a ten metre high fence would provide adequate safety for a two tier driving range. It is the Group's intention to apply for planning permission to erect a 20 metre high fence as soon as possible. If planning permission is refused, the Group's plans for a two tier driving range may have to be altered which may have an adverse effect on the ability of Northwick Park to attract customers in the numbers currently anticipated.

The risks listed above do not necessarily comprise all those faced by the Group.

## **DIRECTORS**

The directors of the Company are:

### *William Francis Frewen (aged 44) – Non-executive Chairman*

William has been an investor in the Group since August 2000. He has worked at a number of top City institutions in a variety of roles, including as a director (co-head of sales) at CSFB, Vice President (credit trading) at JP Morgan, Head of Assets SWAPs, illiquid trading and Private Placements at HSBC and Head of Bond Trading at Nomura. William is a regular investor in both start-up and growing companies including playcricket.com, Sportingindex, TransSiberian Gold plc, Inter Club Net and Playsport New Media.

### *David Andrew Christopher Piggins (aged 41) – Chief Executive*

David Piggins founded Playgolf in 1993, and is responsible for the overall strategy of the Group, specifically with respect to site finding, new developments, fund raising, local authority developments, commercial partners and product development. Prior to this David spent 10 years in property, latterly establishing and running the city office investment department of Nelson Bakewell before setting up his own company.

### *Hugh Lionel Wakefield Fox (aged 42) – Finance Director*

Hugh joined Playgolf in 1996 and has been responsible for handling the finances of the group, along with day-to-day operations of the facilities. Following Admission Hugh will focus on the financial management of the business and Christopher Meadows will manage the operations. Prior to joining Playgolf Hugh was the Managing Director of Burlington Air Express Limited in Hong Kong, a subsidiary of Burlington Air Express Inc. (now BAX Global), part of the Brinks Group of Companies quoted on the New York Stock Exchange. Hugh was based in Hong Kong for six years.

### *Christopher Meadows (aged 42) – Operations Director*

Christopher joined the Group as a result of the acquisition of Golf Learning Centres Limited, which he developed and for which he has been responsible since 1996. A leading teaching professional who has written a series of coaching books, and is CNN International's golf professional. Christopher has responsibility for operations and revenue generation, along with new products and programmes, golf schools and personnel.

## **EMPLOYEES**

As at the date of this Document the Group has 54 employees (including David Piggins, Hugh Fox and Christopher Meadows). 36 are full-time and 18 are part-time.

## **LOCK-INS AND ORDERLY MARKET ARRANGEMENTS**

On Admission it is expected that the current Shareholders of Playgolf will own 32,987,410 Ordinary Shares, representing approximately 69 per cent. of the anticipated issued share capital of the Company. Under the terms of the Lock-in Agreement each of the Directors have undertaken to the Company and Daniel Stewart that, save in certain limited circumstances, they will not dispose of any interest in any Ordinary Shares held by them for a period of twelve months from Admission other than with the prior written consent of Daniel Stewart and for a further twelve months, only after having consulted Daniel Stewart, or the Company's then broker and nominated adviser, so as to ensure the maintenance of an orderly market in the Ordinary Shares.

Further details of the undertakings referred to above are set out in paragraph 5 of Part IV of this document.

## **DETAILS OF THE PLACING AND ADMISSION**

Daniel Stewart has agreed, pursuant to the Placing Agreement to use its reasonable endeavours to place conditionally, *inter alia*, on Admission, the Placing Shares.

Application has been made for the Existing Ordinary Shares and the New Ordinary Shares to be traded on AIM. Dealings in the Existing Ordinary Shares and the New Ordinary Shares are expected to commence at 8.00 a.m. on 14 July 2004.

The New Ordinary Shares will rank equally in all respects with the Existing Ordinary Shares including in respect of all dividends and other distributions declared paid or made after the date of issue.

Further details of the Placing Agreement are set out in paragraph 5 of Part IV of this document.

## **DIVIDEND POLICY**

The Directors intend to commence the payment of dividends only when it becomes commercially prudent to do so, having regard to the availability of the Company's distributable profits and the retention of funds required to finance future growth.

## **SHARE OPTION SCHEME**

The Directors believe that the Company's success is highly dependent on the quality of its employees. To assist in the recruitment, retention and motivation of employees, an important part of the future remuneration strategy will be the ability to award equity incentives and in particular share options to employees. The Directors intend to adopt a share option scheme pursuant to which options may be granted to Directors and employees of the Group, at a subscription price equal to the greater of the nominal value per Ordinary Share and the market value of an Ordinary Share at the time of grant, over an aggregate maximum of 10 per cent. of the Company's issued share capital from time to time.

## **CORPORATE GOVERNANCE**

The Board recognises the importance of sound corporate governance and the Directors intend to ensure that, following Admission, the Company adopts policies and procedures which reflect the Combined Code as are appropriate to the Company's size on Admission.

The Company has established, conditional on Admission, an Audit Committee and a Remuneration Committee with formally delegated duties and responsibilities.

The Audit Committee will consist of Hugh Fox and William Frewen. The Audit Committee will receive and review reports from management and the Group's auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee will have unrestricted access to the Group's auditors.

The Remuneration Committee will consist of David Piggins and William Frewen. The Remuneration Committee will review the scale and structure of the executive directors' and senior employees' remuneration and the terms of their service or employment contracts, including share option schemes and other bonus arrangements. The Board will set the remuneration and terms and conditions for non-executive directors.

The Directors intend to comply with Rule 19 of the AIM Rules relating to directors' dealings as applicable to AIM companies and will also take all reasonable steps to ensure compliance by the Group's applicable employees.

### **CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Articles provide for the Directors to implement procedures that will permit the holding of Ordinary Shares under the CREST system. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that they will be so admitted and accordingly enabled for settlement in CREST, as soon as practicable after Admission. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Subscribers for Ordinary Shares under the Placing may, however, elect to receive their Ordinary Shares in uncertificated form if, but only if, that person is a "system member" as defined in The Uncertificated Securities Regulations 2001 in relation to CREST. Further information is set out in the Placing Letter. It is expected that share certificates, for those that wish to receive them, will be posted to persons who subscribe for Ordinary Shares pursuant to the Placing by 19 July 2004.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the information contained in the rest of this document.

## PART II

# ACCOUNTANTS' REPORT

haysmacintyre

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Fairfax House  
15 Fulwood Place  
London  
WC1V 6AY

T 020 7969 5500  
F 020 7969 5600  
E [service@haysmacintyre.com](mailto:service@haysmacintyre.com)  
W [www.haysmacintyre.com](http://www.haysmacintyre.com)  
X 1005 Chancery Lane London

The Directors  
Playgolf (Holdings) plc  
Westfield House School Lane  
Priors Marston  
Rugby  
Warwickshire  
CV47 7RR

The Directors  
Daniel Stewart & Company PLC  
48 Bishopsgate  
London  
EC2N 4AJ

5 July 2004

Dear Sirs

### **Playgolf (Holdings) plc**

We report on the financial information set out below. This financial information has been prepared for inclusion in the Prospectus dated 5 July 2004 of Playgolf (Holdings) plc.

### **Basis of Preparation**

The financial information set out below is based on the audited financial statements for the three years ended 31 December 2003 and has been prepared on the basis set out below after making such adjustments as we considered necessary.

The figures herein represent the consolidation of the parent company, Playgolf (Holdings) plc ("Playgolf") and its subsidiaries detailed below, in this report collectively referred to as the "Group":

- Playgolf Limited, being a 90 per cent. owned subsidiary of Playgolf
- Playgolf (Heaton Park) Limited, being a wholly owned subsidiary of Playgolf Limited
- Playgolf (Trafford Centre) Limited, being a 79 per cent. owned subsidiary of Playgolf
- Playgolf (Northwick Park) Limited, being a wholly owned subsidiary of Playgolf.

### **Responsibility**

Such financial statements are the responsibility of the directors of Playgolf who have approved their issue.

The directors of Playgolf are responsible for the contents of the prospectus dated 5 July 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information.

The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information for the year ended 31 December 2001 and the year ended 31 December 2003. It also included evidence previously obtained by Fiander Tovell LLP of Stag Gates House, 63/64 The Avenue, Southampton, Hampshire SO17 1XS who audited the financial statements underlying the financial information for the year ended 31 December 2002.

It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion the financial information gives, for the purposes of the prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits and cash flows for the years then ended.

**Consent**

We consent to the inclusion in the Prospectus dated 5 July 2004 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	<i>Year ended 31 December</i>		
	<i>2003</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Sales	1,436	1,453	1,496
Cost of Sales	(524)	(513)	(684)
<b>Gross Profit</b>	<u>912</u>	<u>940</u>	<u>812</u>
Administrative and general expenses	(996)	(856)	(760)
<b>Operating (loss)/profit</b>	<u>(84)</u>	<u>84</u>	<u>52</u>
Net interest (payable)/receivable	(47)	(91)	1
<b>(Loss)/profit on ordinary activities before taxation</b>	<u>(131)</u>	<u>(7)</u>	<u>53</u>
Tax on loss/(profit) on ordinary activities	–	5	(11)
<b>(Loss)/profit on ordinary activities after taxation</b>	<u>(131)</u>	<u>(2)</u>	<u>42</u>
Minority interest	34	(46)	(2)
<b>Retained (loss)/profit</b>	<u>(97)</u>	<u>(48)</u>	<u>40</u>

All turnover and operating (loss)/profit is derived from continuing operations.

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Year ended 31 December</i>		
	<i>2003</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
(Loss)/profit for the financial year	(97)	(48)	40
Unrealised surplus on revaluation of properties	3,592	583	–
<b>Total recognised gains</b>	<u>3,495</u>	<u>535</u>	<u>40</u>

## CONSOLIDATED BALANCE SHEET

		<i>As at 31 December</i>		
	<i>Notes</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Fixed Assets</b>				
Goodwill		237	250	–
Tangible fixed assets	2	7,161	2,344	1,528
		<u>7,398</u>	<u>2,594</u>	<u>1,528</u>
<b>Current Assets</b>				
Investments		–	3	55
Stock	3	11	10	12
Debtors	4	113	169	215
Cash		241	83	117
		<u>365</u>	<u>265</u>	<u>399</u>
<b>Creditors: Amounts falling due within one year</b>	5	<u>(673)</u>	<u>(470)</u>	<u>(488)</u>
<b>Net current liabilities</b>		<u>(308)</u>	<u>(205)</u>	<u>(89)</u>
<b>Total assets less current liabilities</b>		<u>7,090</u>	<u>2,389</u>	<u>1,439</u>
<b>Creditors: Amounts falling due after more than one year</b>	6	<u>(2,047)</u>	<u>(965)</u>	<u>(750)</u>
		<u>5,043</u>	<u>1,424</u>	<u>689</u>
<b>Capital and Reserves</b>				
Paid up share capital	8	–	–	–
Revaluation reserve	9	4,535	943	360
Profit and loss account		(208)	(111)	(63)
Other reserve		316	316	316
		<u>4,643</u>	<u>1,148</u>	<u>613</u>
Minority interest		400	276	76
		<u>5,043</u>	<u>1,424</u>	<u>689</u>

## CONSOLIDATED CASH FLOW STATEMENTS

	<i>For the year ended 31 December</i>		
	<i>2003</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating (loss)/profit	(84)	84	52
Depreciation and amortisation	38	(30)	12
Decrease/(increase) in debtors	56	41	(93)
(Increase)/decrease in stock	(1)	2	(1)
Increase/(decrease) in creditors	298	(110)	109
Investments written off	3	55	–
Loss on sale of tangible fixed assets	3	–	–
<b>Net cash inflow from operating activities</b>	<u>313</u>	<u>42</u>	<u>79</u>
Net cash inflow for returns on investments and Servicing of finance	(47)	(92)	1
<b>Taxation</b>	–	7	(10)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	(1,095)	(50)	(10)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertaking	–	(250)	–
<b>Net cash (outflow)/inflow before financing</b>	<u>(829)</u>	<u>(343)</u>	<u>60</u>
<b>Financing</b>			
Long term loans received	1,297	215	–
Repayment of long term loans	(275)	–	–
<b>Increase/(decrease) in cash</b>	<u>193</u>	<u>(128)</u>	<u>60</u>

**NOTES TO THE FINANCIAL INFORMATION**

**1. Accounting policies**

The accounting policies, applied on a consistent basis in the preparation of the financial information, are as follows:

- (a) *Basis of preparation*  
The financial statements are prepared on the historical cost basis, as modified by the revaluation of certain fixed assets, and in accordance with applicable accounting standards. It comprises consolidated financial information on Playgolf and its subsidiary undertakings.
- (b) *Basis of consolidation*  
Subsidiary undertakings are accounted for from the effective date of acquisition.
- (c) *Turnover*  
Turnover represents the value of goods and services supplied. Turnover relates to the Group's continuing activity, all of which occurs in the United Kingdom.
- (d) *Goodwill*  
Goodwill on acquisition is written off over its estimated useful life of twenty years.
- (e) *Tangible fixed assets*  
Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset by equal monthly instalments over its expected useful life, as follows:–

Leasehold premises	Annual impairment review
Plant and machinery	10-33%
Fixtures, fittings and equipment	20-33%
- (f) *Stock*  
Stock is valued at the lower of cost and net realisable value.
- (g) *Deferred taxation*  
Deferred taxation is provided using the full provision method. Deferred taxation is recognised in respect of all timing differences which have originated but not reversed at the balance sheet date. It is the Group's policy not to discount deferred tax to reflect the time value of money.

## 2. Fixed Assets

	<i>Leasehold Premises £'000</i>	<i>Fixtures, fittings &amp; Plant &amp; equipment £'000</i>	<i>Total £'000</i>
<b>Cost:</b>			
As at 1 January 2003	2,151	346	2,497
Additions during the year	1,055	40	1,095
Revaluation	3,750	–	3,750
Disposals	–	(16)	(16)
As at 31 December 2003	<u>6,956</u>	<u>370</u>	<u>7,326</u>
<b>Accumulated depreciation:</b>			
As at 1 January 2003	–	153	153
Depreciation for the year	–	24	24
Elimination on disposal	–	(12)	(12)
As at 31 December 2003	<u>–</u>	<u>165</u>	<u>165</u>
<b>Net book value as at 31 December 2003</b>	<b><u>6,956</u></b>	<b><u>205</u></b>	<b><u>7,161</u></b>
<b>Net book value as at 31 December 2002</b>	<b><u>2,151</u></b>	<b><u>193</u></b>	<b><u>2,344</u></b>
<b>Net book value as at 31 December 2001</b>	<b><u>1,414</u></b>	<b><u>114</u></b>	<b><u>1,528</u></b>
Being: Cost	2,069	205	2,274
Valuation	4,887	–	4,887
	<u>6,956</u>	<u>205</u>	<u>7,161</u>

The leasehold premises are held at directors valuation as at 31 December 2003.

## 3. Stock

	<i>2003 £'000</i>	<i>2002 £'000</i>	<i>2001 £'000</i>
Goods for resale	<u>11</u>	<u>10</u>	<u>12</u>

## 4. Debtors

	<i>2003 £'000</i>	<i>2002 £'000</i>	<i>2001 £'000</i>
Trade debtors	9	65	66
Other debtors	104	104	145
Corporation tax recoverable	–	–	4
	<u>113</u>	<u>169</u>	<u>215</u>

**5. Creditors: Amounts falling due within one year**

	<i>2003</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank loans and overdrafts	–	95	2
Trade creditors	212	169	131
Other creditors	430	183	304
Other taxes and social security	31	23	51
	<u>673</u>	<u>470</u>	<u>488</u>

**6. Creditors: Amounts falling due after one year**

	<i>2003</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank loans	2,047	965	750
	<u>2,047</u>	<u>965</u>	<u>750</u>

**7. Loans**

	<i>2003</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
A loan at an interest rate of 3.5 per cent. above base rate repayable between one and two years	750	1,025	750
Loans at an interest rate of 3.0% above base rate repayable between two and five years.	1,297	–	–
	<u>2,047</u>	<u>1,025</u>	<u>750</u>

These are repayable as follows:

Within one year	–	60	–
Between one and two years	750	–	–
Between two and five years	1,297	965	750
After five years	–	–	–
	<u>2,047</u>	<u>1,025</u>	<u>750</u>

Loans are secured against the properties of the operating companies and other assets of the Group.

**8. Paid-up Share Capital (as at 31 December 2003)**

	<i>Authorised Capital £</i>	<i>Issued and paid-up capital £</i>
Ordinary shares of £1 each	<u>£1,000</u>	<u>£100</u>

**9. Revaluation reserve**

	<i>2003</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 1 January	943	360	360
Movement in year	3,592	583	–
At 31 December	<u>4,535</u>	<u>943</u>	<u>360</u>

## 10. Reconciliation of movements in shareholder funds

	2003	2002	2001
	£'000	£'000	£'000
(Loss)/Profit for the financial year	(97)	(48)	40
Other recognised gains and losses	3,592	583	–
Net movement in shareholders' funds	3,495	535	40
Opening shareholders' funds	1,148	613	573
Closing shareholders' funds	4,643	1,148	613

## 11. Post Balance Sheet Events

On 9 January 2004 Playgolf acquired Golf Learning Centres Limited through a subsidiary company, Playgolf (Barnet Cophall) Limited. The consideration for the acquisition was £2 million in cash and an obligation of Playgolf to issue shares in its own share capital, such shares having an estimated value at the time of the acquisition of approximately £0.35 million.

On 14 June 2004 Playgolf disposed of its 50 per cent. interest in Playgolf (Calverley) Limited to D.A.C. Piggins and H.L.W. Fox for a deferred cash consideration of £50,000.

On 14 June 2004 the share capital of Playgolf (Holdings) plc was sub-divided on the basis of 100 Ordinary Shares of £0.01 for every share of £1 and on 1 July 2004 was further sub-divided on the basis of 5 Ordinary Shares of £0.002 for every one ordinary share of £0.01.

On 1 July 2004, the company acquired the 10 per cent. minority interest in Playgolf Limited held by Sunley Family Limited, in exchange for the issue of 179,937 ordinary shares of £0.01 each in Playgolf (Holdings) plc.

Yours faithfully

**haysmacintyre**

## PART III

### PROFORMA STATEMENT OF NET ASSETS

This pro forma statement of net assets have been prepared on the bases set out in the notes below and are based on the combined audited financial statements of the Company, Playgolf Limited, Playgolf (Heaton Park) Limited, Playgolf (Trafford Centre) Limited and Playgolf (Northwick Park) Limited for the year/period ended 31 December 2003.

The pro forma statement of net assets has been prepared to provide information about how the Placing might have affected the financial information presented in Part II of this document for the year ended 31 December 2003 on the basis that it took place as at that date.

The pro forma statement of net assets is provided for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Group as at 31 December 2003.

	<i>As at</i> <i>31 December</i> <i>2003</i> <i>(Note 1)</i> <i>£'000</i>	<i>Adjustment</i> <i>(Note 2)</i> <i>£'000</i>	<i>Adjustment</i> <i>(Note 3)</i> <i>£'000</i>	<i>Adjustment</i> <i>(Note 4)</i> <i>£'000</i>	<i>Pro forma</i> <i>net assets</i> <i>£'000</i>
<b>Fixed Assets</b>					
Goodwill	237	7	–	–	244
Tangible fixed assets	7,161	2,733	–	–	9,894
	7,398	2,740	–	–	10,138
<b>Current Assets</b>					
Stock	11	41	–	–	52
Debtors	113	17	50	–	180
Cash	241	30	–	1,623	1,894
	365	88	50	1,623	2,126
<b>Creditors: Amounts falling due within one year</b>	(673)	(2,249)	–	–	(2,922)
Net Current Liabilities	(308)	(2,161)	50	1,623	(796)
<b>Total Assets less Current Liabilities</b>	7,090	579	50	1,623	9,342
<b>Creditors: Amounts falling due after more than one year</b>	(2,047)	(229)	–	–	(2,276)
<b>Net Assets</b>	5,043	350	50	1,623	7,066

#### Notes

- (1) Extracted without material adjustment from the financial information set out in the accountants' report in Part II of this document.
- (2) Adjustment to reflect the acquisition of Golf Learning Centres Limited through the intermediary holding company Playgolf (Barnet Copthall) Limited on 9 January 2004. The consideration for the acquisition was £2 million in cash and an obligation of Playgolf (Holdings) to issue shares in its own share capital, such shares having an estimated value at the time of the acquisition of approximately £0.35 million.
- (3) Adjustment to reflect the disposal of Playgolf (Calverley) Limited on 14 June 2004 for a deferred cash consideration of £50,000.
- (4) Adjustments have been made to reflect the issue pursuant to the Placing of 12,000,000 Ordinary Shares for a total consideration of £2,000,000 and expenses in connection with the Placing of £377,000 (including an estimate of the non recoverable VAT) as follows:

<i>Increase in cash</i>	<i>£'000</i>
Proceeds of Placing	2,000
Expenses of Placing	(377)
	1,623
- (5) No account has been taken of trading or other transactions since 31 December 2003.

## PART IV

### ADDITIONAL INFORMATION

#### 1. INCORPORATION

- 1.1 The Company was incorporated in England on 16 July 1993 as a limited company under the Act with the name Eagledrive Limited and with registered number 02836921. On 14 October 1996 the Company changed its name under the Act to Vision In Sport Limited and on 10 August 1998 the Company changed its name under the Act to Playgolf (Holdings) Limited. The Company re-registered under the Act as a public limited company on 14 June 2004.
- 1.2 The Company's registered office is at Westfield House, School Lane, Priors Marston, Rugby, Warwickshire, CV47 7RR.
- 1.3 The Company is subject to the provisions of the Act. The liability of the members of the Company is limited.

#### 2. SHARE CAPITAL OF THE COMPANY

- 2.1 The authorised and issued share capital of the Company at the date of this prospectus, and at Admission, is and it is anticipated will be as follows:

	<i>Authorised Number of Ordinary Shares</i>	<i>Issued and credited fully paid Number of Ordinary Shares</i>
Current	500,000,000	35,987,410
Proposed	500,000,000	47,987,410

- 2.2 As at the date of this Document and on Admission, so far as the Directors are aware, the only persons who are directly or indirectly interested in more than 3 per cent. of the issued Ordinary Shares are, and will be, as follows:

<i>Name</i>	<i>At the date of this document</i>		<i>On Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>% of issued Ordinary Shares</i>	<i>Number of Ordinary Shares</i>	<i>% of issued Ordinary Shares</i>
David Piggins	12,750,000	35.4	11,970,128	24.9
Hugh Fox	11,500,000	32.0	10,796,586	22.5
William Frewen	8,333,335	23.2	7,823,615	16.3
Christopher Meadows	1,754,390	4.9	1,647,081	3.4

- 2.3 By a written resolution passed on 14 June 2004, *inter alia*, the Directors were authorised to allot Ordinary Shares and other relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £999,000, for a period expiring (unless otherwise previously renewed, waived or revoked) at the conclusion of the next annual general meeting of the Company (or 15 months after the date of the resolution, whichever is earlier) save that the Directors may make an offer or agreement which would or might require relevant securities to be allotted after such expiry and may allot relevant securities pursuant to such an offer or agreement as if such authority had not expired.
- 2.4 By a special resolution passed in general meeting on 5 July 2004 the Directors were empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash as if Section 89(1) did not apply to such allotment provided that the power is limited to the allotment of equity securities in connection with a rights issue, open offer or other offer of such securities to holders of Ordinary Shares in proportion (as nearly as practicable) to their respective holdings, the allotment of Ordinary Shares pursuant to the exercise of the Warrants granted to Daniel

Stewart, the allotment of the New Ordinary Shares and to the allotment of (other than the allotments set out above) equity securities up to an aggregate nominal amount equal to £4,798.74, for a period expiring (unless otherwise previously renewed, waived or revoked) at the conclusion of the next annual general meeting of the Company (or 15 months after the date of the resolution, whichever is earlier) save that the Directors may make an offer or agreement which would or might require relevant to be allotted after such expiry and may allot relevant securities pursuant to such an offer or agreement as if such authority had not expired.

- 2.5 Save in connection with the Placing, or as otherwise disclosed in this Document, no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.
- 2.6 Save as otherwise disclosed in this Document, the Company does not have in issue any security not representing share capital and there are no outstanding convertible securities issued by the Company.
- 2.7 The New Ordinary Shares will rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.

- 2.8 As at the date of this Document, the Company has granted the following Warrants to Daniel Stewart:

<i>Date of Grant</i>	<i>Number of Ordinary Shares</i>	<i>Exercise Price</i>	<i>Exercise Period</i>
5 July 2004	1,199,685	Placing Price	Five years from the date of Admission

- 2.9 By a written resolution passed on 14 June 2004 the option agreement between the Company and Christopher Meadows dated 14 June 2004 (details of which are set out in paragraph 5 of this Part of the Document), being a contingent purchase contract (as defined in the Act), was approved pursuant to Section 165(2) of the Act.

### 3. DIRECTORS' AND OTHER INTERESTS

- 3.1 The names of the Directors and their functions are given below:

William Frewen	<i>Non-Executive Chairman</i>
David Piggins	<i>Chief Executive</i>
Hugh Fox	<i>Finance Director</i>
Christopher Meadows	<i>Operations Director</i>

- 3.2 The interests of the Directors and their immediate families (all of which are beneficial unless otherwise stated) and of connected persons within the meaning of section 346 of the Act, in the issued share capital of the Company as at 2 July 2004 (being the latest practicable date prior to publication of this document), and at Admission, which have been notified to the Company pursuant to section 324 of the Act or are required to be entered into the register of directors' interests maintained under the provisions of section 325 of the Act, or could, with reasonable diligence, be ascertained by the Directors, together with the percentages which such interests represent of the ordinary shares in issue are and are expected to be as follows:

<i>Name</i>	<i>At the date of this document</i>		<i>At Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>% of issued Ordinary Shares</i>	<i>Number of Ordinary Shares</i>	<i>% of issued Ordinary Shares</i>
David Piggins	12,750,000	35.4	11,970,128	24.9
Hugh Fox	11,500,000	32.0	10,796,586	22.5
William Frewen	8,333,335	23.2	7,823,615	16.3
Christopher Meadows	1,754,390	4.9	1,647,081	3.4

- 3.3 Save as disclosed in this Document, no Director (or member of his family) has any interest, beneficial or non-beneficial, in the share capital of the Company.
- 3.4 Save as disclosed in this Document, none of the Directors has or has had an interest in any transaction effected by any shareholder of the Company which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which was affected during the current year or any earlier financial year and remains in any respect outstanding or unperformed.
- 3.5 The aggregate remuneration paid and benefits in kind granted to the Directors during the last completed financial year of the Company was £130,182. The aggregate of the remuneration granted to the Directors in respect of the Company's current financial year is estimated, under the arrangements in force at the date of this Document, to be approximately £318,000.
- 3.6 There will be no variation in the total emoluments receivable by the Directors as a result of the Placing.
- 3.7 There are no outstanding loans or guarantees provided by the Company to or for the benefit of any of the Directors.
- 3.8 The Directors are not aware of any person who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.
- 3.9 The services of the Directors are provided to the Company under the following agreements:
- 3.9.1 Hugh Fox entered into a service agreement with the Company dated 2 July 2004 under which he will be paid a salary of £100,000 per annum. Under the terms of the agreement Hugh Fox will at all times act in the best interest of the Company and shall keep in confidence all aspects of the Company and the Group's activities. Either party may give 12 months notice to terminate the agreement and Hugh Fox will resign as a Director immediately upon any termination. The agreement contains restrictive covenants.
- 3.9.2 David Piggins entered into a service agreement with the Company dated 2 July 2004 under which he will be paid a salary of £100,000 per annum and will at all times act in the best interest of the Company and shall keep in confidence all aspects of the Company and the Group's activities. Either party may give 12 months notice to terminate the agreement and David Piggins will resign as a Director immediately upon any termination. The agreement contains restrictive covenants.
- 3.9.3 Christopher Meadows entered into a service agreement with the Company dated 2 July 2004 under which he will be paid a salary of £70,000 per annum with a guaranteed bonus of £30,000 in the first year of his employment and he will at all times act in the best interest of the Company and shall keep in confidence all aspects of the Company and the Group's activities. Either party may give 3 months notice to terminate the agreement and Christopher Meadows will resign as a Director immediately upon any termination. The agreement contains restrictive covenants.
- 3.9.4 William Frewen is Non-Executive Chairman of the Company pursuant to the terms of a letter of appointment dated 2 July 2004. Subject to the provisions of the articles of association of the Company relating to retirement by rotation and vacation of office, the appointment is terminable by either party on the giving of one month's written notice. William Frewen is paid a fee of £18,000 per annum.
- 3.10 The Directors, in addition to their directorships of the Company, currently hold the following directorships, or have held the following directorships within the five years prior to the publication of this Document, and are currently partners, or have been partners within the five years prior to the publication of this Document, of the following firms or partnerships:

<i>Name</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
William Frewen	Work For Fun Limited Playgolf (Trafford Centre) Limited Fanfame Limited Fanfame Worldwide Limited Sportsmad Limited	Loxko Venture Managers Limited
David Piggins	Playgolf Limited Playgolf (Heaton Park) Limited Calverley (2004) Limited Calverley Golf Club Limited Playgolf (Trafford Centre) Limited Playgolf (Northwick Park) Limited Playgolf (Barnet Copthall) Limited Golf Learning Centres Limited Sportsmad Limited	Tigs Limited Body Armour Limited Playgolf (Bridlington) Limited
Hugh Fox	Playgolf Limited Playgolf (Heaton Park) Limited Calverley (2004) Limited Calverley Golf Club Limited Playgolf (Trafford Centre) Limited Playgolf (Northwick Park) Limited Playgolf (Barnet Copthall) Limited Golf Learning Centres Limited	Tigs Limited Body Armour Limited Playgolf (Bridlington) Limited
Christopher Meadows	Capital Golfer Limited Pro-Assist UK Limited GO L.F. Trainer Limited	Golf Learning Centres Limited

3.11 No Director has:

- (i) any unspent convictions in relation to indictable offences;
- (ii) had a bankruptcy order made against him or entered into an individual voluntary arrangement;
- (iii) been a director of a company or a partner in any firm which, at that time or within 12 months after ceasing to be a director or partner (as the case may be), had a receiver appointed, or went into compulsory liquidation, or creditors voluntary liquidation or went into administration, or entered into any company or partnership voluntary arrangements or made any composition or arrangement with its creditors generally or any class of creditors;
- (iv) been a partner in any partnership which has been placed in liquidation, administration or been the subject of a voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (v) been the owner of any asset or a partner in any partnership which had an asset placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be partner in that partnership;
- (vi) had any public criticism against him by any statutory or regulatory authority (including recognised professional bodies); or
- (vii) been disqualified by a court from acting as a director or acting in the management or conduct of the affairs of any company.

#### **4. SUBSIDIARIES**

- 4.1 The Company's wholly-owned subsidiaries (through direct and indirect holdings) are:
- 4.1.1 Playgolf (Northwick Park) Limited. Registered in England and Wales with registered number 4363452.
  - 4.1.2 Playgolf (Trafford Centre) Limited (trading as Playgolf Manchester). Registered in England and Wales with registered number 4010749.
  - 4.1.3 Playgolf (Barnet Copthall) Limited. Registered in England and Wales with registered number 5008824.
  - 4.1.4 Work for Fun Limited. Registered in England and Wales with registered number 3799071.
  - 4.1.5 Playgolf Limited. Registered in England and Wales with registered number 2861552.
- 4.2 Playgolf (Barnet Copthall) Limited's wholly-owned subsidiary is:
- 4.2.1 Golf Learning Centres Limited (trading as Playgolf Metro). Registered in England and Wales with registered number 2609004.
- 4.3 Playgolf Limited's wholly owned subsidiary is:
- 4.3.1 Playgolf (Heaton Park) Limited. Registered in England and Wales with registered number 3193951.
- 4.4 All companies in the Group are trading.

#### **5. MATERIAL CONTRACTS**

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

- 5.1 the Placing Agreement dated 5 July 2004 pursuant to which and conditional upon, *inter alia*, Admission taking place on or before 8.00 a.m. on 14 July 2004 (or such later time and or date as the Company and Daniel Stewart may agree. Daniel Stewart has agreed to use its reasonable endeavours to procure subscribers ("Placees") for the New Ordinary Shares at the Placing Price. The Placing Agreement contains indemnities and warranties from the Company and warranties from the Directors in favour of Daniel Stewart and Daniel Stewart acting as trustee in favour of the Placees, together with provisions which enable Daniel Stewart to terminate the agreement prior to Admission in certain circumstances including where any warranties are found to be untrue or inaccurate to any material extent. The liability of the Directors for breach of warranty is limited to an aggregate of £1,086,550;
- 5.2 the Warrant Instrument dated 5 July 2004 pursuant to which the Company has agreed to grant a warrant (exercisable in whole or in part) to Daniel Stewart to subscribe for 1,199,685 Ordinary Shares on the terms set out at paragraph 2.8 of this Part IV;
- 5.3 the Lock-In Agreement dated 5 July 2004 pursuant to which to the extent that they are a related party or an applicable employee for the purposes of the AIM Rule on Admission, the Directors, have each severally undertaken to the Company and Daniel Stewart not to dispose of Ordinary Shares, save in accordance with the Placing, until one year from Admission and then for a further 12 months will only dispose of Ordinary Shares through the Company's broker from time to time;
- 5.4 a nominated adviser and broker agreement dated 2 July 2004 between Daniel Stewart (1) and the Company (2) pursuant to which the Company has appointed Daniel Stewart to act as Nominated Advisor and Broker to the Company for the purposes of the Admission. The Company has agreed to pay Daniel Stewart a fee of £25,000 per annum for its services under this agreement. The agreement contains certain undertakings and indemnities given by the Company in respect of, *inter alia*,

- compliance with all applicable laws and regulations. The agreement is for a term of 18 months and thereafter subject to termination on the giving of three months' notice by either party;
- 5.5 an agreement dated 1 July 2004 between Sunley Family Limited ("SFL"), Sunley Holdings plc ("SHP") and the Company, pursuant to which the Company purchased 10 ordinary shares of £1.00 each in the capital of Playgolf Limited from SFL. The consideration for the acquisition was the issue to SFL by the Company of 899,685 Ordinary Shares, credited as fully paid representing 2.5 per cent. of the entire issued share capital of the Company after such issue. This transaction had the effect of making Playgolf Limited a wholly owned subsidiary of the Company. SFL has also entered into an agreement with Daniel Stewart and the Company whereby to the extent that SFL holds any Ordinary Shares following the Placing, it will not dispose of such Ordinary Shares until three months from admission and for a further nine months will only dispose of such Ordinary Shares through the Company's broker from time to time;
  - 5.6 a share sale agreement dated 14 June 2004 between the Company (1) David Piggins (2) Hugh Fox (3) pursuant to which the Company sold 500 B ordinary shares of £1.00 each in the share capital of Calverley (2004) Limited (formerly Playgolf (Calverley) Limited) to David Piggins and Hugh Fox. The consideration payable by David Piggins and Hugh Fox was £50,000 plus interest at a rate of 5 per cent. per annum, payable at such time as (1) a sale, a disposal or a flotation of Calverley (2004) or its business; (2) a default (breach of the Share Sale Agreement by, or the death or bankruptcy of, David Piggins or Hugh Fox); or (3) not later than three years from the date of the agreement. Under a "Compensation on Exit" clause, further compensation proportionate to the price of a subsequent sale, disposal, flotation or transfer while the consideration is unpaid, would be payable if, among other conditions, the value of Calverley (2004) Limited or its business exceeds £1,000,000 on such sale, disposal, flotation or transfer;
  - 5.7 a share sale and purchase agreement 14 June 2004 between the Company (1) and William Frewen (2) pursuant to which the Company purchased the total issued share capital of Work For Fun Limited from William Frewen. The consideration comprised the issue to William Frewen of 1,666,667 ordinary shares of 1p each in the then share capital of the Company. At the same time Work For Fun Limited repaid to William Frewen an on-demand loan of £83,000;
  - 5.8 an option agreement dated 14 June 2004 between the Company (1) and Christopher Meadows (2), pursuant to which Christopher Meadows was granted a put option by the Company and the Company was granted a call option by Christopher Meadows over the 350,878 ordinary shares of 1p each in the then share capital of the Company owned by Christopher Meadows (the "Option Shares"). Either option may be exercised at any time between the date that Christopher Meadows' employment with the Group ends and the date 30 days following that date. If Christopher Meadows' employment continues beyond 9 January 2005 then both options will lapse. The price for the Option Shares (which may not be sold in part only) on exercise of either option will be £346,316 in the case of Christopher Meadows being a good leaver and £173,158 where he is a bad leaver. For the purposes of the option agreement, Christopher Meadows will be a good leaver only where his employment ceases because of his death, dismissal for cause or his being made redundant or the Company acting in such a way that his duties are materially diminished or his authority materially reduced to such an extent that his position is eliminated. Entry into the option agreement was approved pursuant to section 165(2) of the Act by a special resolution of the Company dated 14 June 2004;
  - 5.9 a share purchase agreement dated 9 January 2004 between the Company (1) Playgolf (Barnet Copthall) Limited (2) Christopher Meadows (3) and Ivan Bozidar Ivanovic (4) pursuant to which Playgolf (Barnet Copthall) Limited purchased the entire issued share capital of Golf Learning Centres Limited from Christopher Meadows and Ivan Ivanovic. The consideration for the acquisition comprised the issue of 5 per cent. of the total issued share capital in the Company and the payment of £1,200,000 to Christopher Meadows and the payment of £800,000 to Ivan Ivanovic;
  - 5.10 a loan facility letter dated 22 December 2003 between Playgolf (Barnet Copthall) Limited ("PBC") (1) and Anglo Irish Bank Corporation plc ("AIB") (2), pursuant to which AIB made available to PBC an aggregate sum of £2,350,000. The purpose of the loan was to aid the purchase of the entire issued

share capital of Golf Learning Centres Limited and PBC has drawn down the loan in full. By a letter dated 30 June 2004 AIB has agreed that the loan will not be repayable before 31 December 2006 subject to ongoing satisfactory account operation and trading performance by the Group. AIB shall decide on an annual basis if capital reduction payments should be made (the first review to take place 12 months from the date of the first drawdown under the facility, being 9 January 2005). Interest is payable on the loan at a rate of the aggregate of 2.75 per cent. per annum, plus the cost to AIB of raising deposits in the London Interbank Market of the same amount as the loan, plus such additional rate per annum to compensate AIB for any regulatory charges it incurs in making the loan. David Piggins and Hugh Fox have provided joint and several guarantees in the sum of £300,000, PBC, the Company and Golf Learning Centres have given floating charges over all their assets and Playgolf (Trafford Centre) Limited, the Company, Golf Learning Centres Limited, PBC, and Playgolf (Northwick Park) Limited have all entered a composite joint and several guarantees in respect of all group indebtedness to AIB and Anglo Irish Asset Finance plc, in favour of AIB in respect of the compliance of PBC with its obligations under the facility letter. Pursuant to the facility letter PBC paid AIB an arrangement fee of £23,500;

- 5.11 a loan facility letter dated 22 July 2003 between Playgolf (Northwick Park) Limited (“PNoP”) (1) and Anglo Irish Asset Finance plc (“AIAF”) (2), pursuant to which AIAF made available to PBC an aggregate sum of £6,000,000. The purpose of the loan was to re-finance the existing borrowings of Playgolf (Trafford Centre) Limited with AIAF in respect of the facility at Northwick Park (£275,000), provide funds for the development of the facility at Northwick Park (£5,230,428) and a contingency amount of (£494,572). PNoP has drawn down £1,499,075.50 of the facility. The loan is repayable on demand but by a letter dated 30 June 2004 AIAF has agreed that the loan will not be repayable before 31 December 2006 subject to ongoing satisfactory account operation and trading performance by the Group. AIAF shall decide 18 months from the date of the facility letter if any capital reduction payments should be made. Interest is payable on the loan at a rate of the aggregate of 3.00 per cent. per annum, plus the cost to AIAF of raising deposits in the London Interbank Market of the same amount as the loan, plus such additional rate per annum to compensate AIAF for an regulatory charges it incurs in making the loan. David Piggins and Hugh Fox have provided joint and several guarantees in the sum of £600,000. PNoP has given a floating charge over the lease of the facility at Northwick Park, the Company has provided a guarantee in the sum of £1,500,000, a charge has been granted over a sub-lease of part of the facility and collateral warranties from the developers of the facility have been assigned, in favour of AIAF in respect of the compliance of PNoP with its obligations under the facility letter. Pursuant to the facility letter PBC paid AIAF an arrangement fee of £60,000; and
- 5.12 a deed of release dated 8 November 2002 between the Company (1) and Simon Nelson (2) pursuant to which Simon Nelson transferred one ordinary share of £1.00 in the share capital of Playgolf (Northwick Park) Limited (representing 50 per cent. of the total issued share capital) to the Company. The consideration for the transfer was £250,000. Simon Nelson also waived any claim he had under an agreement dated 27 February 2002 between himself and the Company under which the Company had the option to purchase the one ordinary share in the share capital of Playgolf (Northwick Park) Limited from Simon Nelson and Simon Nelson had the option to sell the one ordinary share to the Company.

## **6. MEMORANDUM AND ARTICLES OF ASSOCIATION**

The principal objects of the Company, which are set out in Clause 4 of its Memorandum of Association, are to act as a general commercial company and to purchase, acquire or take options over any property whatever and any rights or privileges over or in respect of any property. The Articles which were adopted by special resolution of the Company dated 14 June 2004 contain, *inter alia*, provisions to the following effect:

### *Voting rights*

- 6.1 Subject to disenfranchisement in the event of non-compliance with a statutory notice requiring disclosures as to beneficial ownership or to any other provisions of the Articles, every holder of Ordinary Shares who (being an individual) is present in person or (being a corporation) is present by

a representative shall, on a show of hands, have one vote and every holder of ordinary shares present in person or by proxy shall, on a poll, have one vote for every Ordinary Share held by him.

*Variation of rights and alteration of capital*

- 6.2 If at any time the capital of the Company is divided into different classes of shares, all or any of the rights and privileges attached to any class of share may, subject to the Act, be varied with the consent in writing of the holders of three quarters of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting the provisions of the Articles relating to General Meetings shall apply, *mutatis mutandis*, but the necessary quorum shall be at least two persons holding or representing by proxy at least one third in nominal value of the issued shares of that class and at any adjourned meeting one person holding shares of the class in question or his proxy.
- 6.3 The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of a larger amount and sub-divide all or any of its shares into shares of a smaller amount.
- 6.4 The Company may, subject to the provisions of the Act, by special resolution reduce its share capital, any capital redemption reserve or any share premium account.
- 6.5 The Company may, by ordinary resolution, cancel any shares not taken or agreed to be taken by any person.

*Transfer of shares*

- 6.6 The instrument of transfer of any share in the Company shall be in the usual form or such other form as shall be approved by the Directors. The Directors may in their absolute discretion and without assigning any reason therefore refuse to register any transfer of shares which are not fully paid or if the instrument of transfer is in favour of more than four persons jointly.

*Directors*

- 6.7 A Director shall not be disqualified by his office from contracting with the Company, nor is any Director so contracting liable to account to the Company for any profit realised thereby but the nature of his interest must be declared by him in accordance with the Act.
- 6.8 Save as provided in paragraph 6.9 below, a Director shall not vote (nor be counted in the quorum) in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities or otherwise in or through the Company.
- 6.9 Subject to the provisions of the Act, a Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolutions concerning any of the following matters, namely:
- 6.9.1 the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- 6.9.2 the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- 6.9.3 any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

- 6.9.4 any contract, arrangement, transaction or other proposal concerning any other body corporate in which he or any person connected with him (within the meaning of Section 346 of the Act) is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he and any persons so connected with him do not to his knowledge hold an interest (within the meaning of Sections 198-211 of the Act) in one per cent. or more of any class of the equity share capital of such body corporate (calculated exclusive of any shares of that class in that company held as treasury shares) or of the voting rights available to members of the relevant body corporate;
- 6.9.5 any contract, arrangement, transaction or other proposal for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom the scheme relates; and
- 6.9.6 any proposal concerning any insurance which the Company is to purchase and/or maintain for or for the benefit of any Directors or for the benefit of persons who include Directors.
- 6.10 Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or places of profit with the Company or any other company in which the Company is interested, such proposals may be divided and considered in relation to each Director separately and in such case each of the Directors concerned (if not debarred from voting under sub-paragraph 6.9.4 above) shall be entitled to vote (and to be counted in the quorum) in respect of each resolution except that concerning his own appointment.
- 6.11 The Directors' fees (excluding amounts payable under any provision of the Articles) shall not be more than £300,000 in aggregate (or such other sum as may from time to time be determined by an ordinary resolution of the Company) and shall (unless such resolution otherwise provides) be divided among the Directors in such manner as the Directors may agree or, failing agreement, equally. The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors including any expenses incurred in attending meetings of the board of Directors or of committees of the board of Directors or general meetings.
- 6.12 The salary or remuneration of any Director who holds an executive office, or who serves on a committee, or who devotes special attention to the business of the Company, or who goes and resides abroad, or who otherwise performs services which in the opinion of the Directors or any committee authorised by the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Directors or such committee determine.
- 6.13 The salary or remuneration of any managing Director or executive Director of the Company shall, subject as provided in any contract, be such as the Directors may from time to time determine, and may either be a fixed sum of money, or may altogether or in part be governed by the business done or profits made, and may include the making of provisions for the payment to him, his widow or other dependants, of a pension on retirement from the office or employment to which he is appointed and for the participation in pension and life assurance and other benefits, or may be upon such other terms as the Directors determine.
- 6.14 The Directors may give or award pensions, annuities, gratuities and superannuation or other allowances for the benefit of or for any person who are or have been Directors of or who are or have been employed by the Company or any of its subsidiaries and the families and dependants of any such persons.
- 6.15 A Director shall not be required to retire by reason of his having attained the age of 70.
- 6.16 A Director shall not be required to hold any shares of the Company by way of qualification.

### *Borrowing powers*

- 6.17 The Directors shall restrict the borrowings of the Company and exercise all the powers of the Company to borrow money and to mortgage or charge all or any of its undertaking, property and uncalled capital and, subject to the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company and exercise all voting rights and other rights or power of control exercisable by the Company in relation to its subsidiaries so as to secure (as regards subsidiaries so far as by such exercise they can secure) that the aggregate principal amount at any one time, without the previous sanction of an ordinary resolution of the Company, does not exceed the greater of £50,000,000 and a sum equal to three times the aggregate of the adjusted share capital of the Company for the time being issued and paid up or credited as paid up and the amounts standing to the credit of the reserves of the Company and its subsidiaries including the share premium account, capital redemption funds and plus or minus (as the case may be) the credit or debit balance on profit and loss.

### *Untraced shareholders*

- 6.18 Subject to various requirements, the Company may sell any shares in the Company of a member who is untraceable if, during a period of twelve years, at least three cash dividends in respect of the shares in question have been payable and all cheques or warrants for all amounts payable to the member in respect of his shares have remained uncashed and the Company has not received any communication from such member.

### *Dividends*

- 6.19 The Company may from time to time in general meeting declare dividends but no dividend shall exceed the amount recommended by the Directors. Subject to the provisions of the Act, the Directors may declare and pay such interim dividends (including any dividend payable at a fixed rate) as they think fit. If the Directors act in good faith, they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer in consequence of the payment of an interim dividend on any shares having non-preferred or deferred rights. Subject to the rights of persons, if any, holding shares with special dividend rights, the ordinary shares carry the right to participate *pro rata* in all distributions of profits or otherwise made by the Company. All dividends unclaimed for a period of one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and all dividends unclaimed after a period of twelve years from having been declared shall be forfeited and shall revert to the Company.

### *Distribution of assets on a winding-up*

- 6.20 The holders of the Ordinary Shares will be entitled to participate in any surplus assets on a winding up in proportion to their shareholdings.
- 6.21 On a winding up of the Company, the liquidator may, with the authority of an extraordinary resolution, divide the assets of the Company among the members and determine the division as between members or, if any, different classes of members. The ordinary shares carry no right of redemption.

## **7. LITIGATION**

Neither the Company nor any of its subsidiaries is or has been engaged in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position nor are any such proceedings pending or threatened.

## **8. UNITED KINGDOM TAXATION**

### *8.1 Introduction*

**The information in this section is based on the Directors' understanding of current tax law and Inland Revenue practice. The following should be regarded as a summary and should not be construed as constituting advice. Prospective shareholders are strongly advised to take their**

**own independent tax advice but certain potential tax benefits are summarised below in respect of an individual resident in the UK for tax purposes.**

On issue, the Placing Shares will not be treated as either “listed” or “quoted” securities for tax purposes. Provided that the Company remains one which does not have any of its shares quoted on a recognised stock exchange (which for these purposes does not include AIM), the Placing Shares should continue to be treated as unquoted securities.

**The following information is based upon the laws and practice currently in force in the UK and may not apply to persons who do not hold their Ordinary Shares as investments.**

## 8.2 *Disposals*

### 8.2.1 *Capital Gains Tax (“CGT”) on Disposals by Individuals and Trustees*

#### 8.2.1.1 Rules for Order of Disposals

Changes were made to the rules relating to the holdings of shares from 6 April 1998 so that the “pooling” of shares (i.e. treating them as one asset) no longer applies. Any disposal of shares is usually treated on a last in, first out basis for the purposes of calculating gains that are chargeable to tax.

#### 8.2.1.2 Taper Relief

For disposals after 5 April 1998, “taper relief” was introduced which applies to individual investors and trustees (but not to corporate investors). Taper relief reduces the chargeable gain assessable to CGT in relation to the period the investment is held and the scales of relief depend upon whether the investment is a “business” or “non-business” asset. The scale of relief is enhanced for those assets that qualify as “business” assets. Business assets currently include shares in qualifying unquoted trading companies. For these purposes, companies admitted to trading on AIM are regarded as unquoted.

During the period for which the shares are held the classification may change so that for part of the holding period, shares in the Company will be deemed to be non-business assets with the associated reduced scales of taper relief applicable. If this is the case, the taper relief would be calculated by apportioning any gain assessed on shares in the Company between the non-business and business periods with each part of the gain then attracting taper relief at the appropriate rate, for the whole of the qualifying holding period.

#### 8.2.1.3 CGT Gift Relief

If shares in an AIM company, which is a trading company, or the parent company of a trading group, are transferred to a third party, other than at arm’s length, the deemed capital gain can be “held over”, i.e. the CGT liability is postponed until a subsequent arm’s length disposal by the transferee, who effectively inherits the transferor’s base cost. The relief must be claimed by both the transferor and the transferee within five years and ten months of the end of the relevant tax year in which the gift was made and the transferee must be resident or ordinarily resident in the UK and remain so for six years. If CGT gift relief is claimed, the effect of the claim is that the ownership for taper relief purposes starts again, with no taper relief in respect of the previous period of ownership being applicable.

Draft legislation announced in the pre budget report on 10 December 2003 means that gift relief will no longer be available on gifts to a Trust where the donor can still receive any benefit from the Trust.

### 8.2.2 *CGT on disposals by Companies*

Corporate shareholders within the charge of UK corporation tax may be liable to corporation tax on chargeable gains. Such shareholders will however benefit from indexation allowance (rather than taper relief) which may reduce their tax liability.

### 8.2.3 *Inheritance Tax (“IHT”)*

Shares in qualifying AIM trading companies can attract 100 per cent. business property relief from IHT provided that the shares are held for at least two years before the chargeable transfer for IHT purposes takes place.

### 8.2.4 *Loss Relief*

If a loss arises to a company on the disposal of shares in an unquoted trading company, such shares being originally acquired on a subscription for new shares, the loss may be relieved against income of that accounting period or the previous accounting period (with priority for relief in the current year where income of both years is utilised). Any loss remaining after claiming relief against income, may be available for relief against capital gains in either the current or subsequent accounting periods.

### 8.2.5 *Qualifying Investment Relief*

A gift to a charity of a “qualifying investment” will qualify for income tax relief under section 587B ICTA. Shares in an AIM company are currently treated as “qualifying investments”. Therefore, if an individual disposes of shares in a company on AIM to a charity (of which an individual may be the settler or a trustee), the gift qualifies for income tax relief. The amount of relief is calculated based on the market value of the “qualifying investment” at the date of the gift and the incidental costs of making the disposal.

## 8.3 *Income Tax and Corporation Tax on Dividend Income*

8.3.1 The statements that follow assume that no dividends paid by the Company will be treated as foreign income dividends pursuant to the provisions of the Finance Act 1997 and that the Company will not elect to pay any foreign income dividends under the provisions contained in the Finance Act 1994. The Directors have no present intention of paying any dividends which are, or may be treated as foreign income dividends.

8.3.2 Under current UK tax legislation, no tax is now withheld from dividends paid by the Company. Advance Corporation Tax (“ACT”) has been abolished since 6 April 1999.

8.3.3 UK resident individual shareholders are treated as having received income of an amount equal to the sum of the dividend and its associated tax credit, the tax credit for dividends paid from 6 April 1999 being 10 per cent. of the combined amount of the dividend and the tax credit (i.e. the tax credit will be one ninth of the dividend). The tax credit will effectively satisfy a UK resident individual shareholder’s lower and basic rate (but not higher rate) income tax liability in respect of the dividend. UK resident individual shareholders who are subject to tax at the higher rate (currently 40 per cent.) will have to account for additional tax. The special rate of tax set for higher rate taxpayers who receive dividends is 32.5 per cent. After taking account of the 10 per cent. tax credit, such a taxpayer would have to account for additional tax of 22.5 per cent. In determining what tax rates apply to a UK resident individual shareholder, dividend income is treated as his top slice of income.

8.3.4 Prior to 6 April 1999, in appropriate cases, individuals and charities were able to reclaim all or part of the tax credit attaching to a dividend in cash from the Inland Revenue. From 6 April 1999 they are no longer able to do so and the credit may only be set against a liability in respect of a taxable distribution.

8.3.5 A UK resident (for tax purposes) corporate shareholder will generally not be liable to UK corporation tax on any dividend received and will be entitled for tax purposes to treat any such dividend and the related tax credit as franked investment income.

8.3.6 Shareholders not resident in the UK are generally not taxed in the UK on dividends received by them (unless, exceptionally, the investment is managed by a UK investment manager acting, broadly, on arm's length terms). By virtue of double taxation agreements between the UK and other countries, some overseas shareholders are able to claim entitlement to all or part of the tax credits carried by the dividends they received from UK companies; however due to the reduction in the level of the tax credit the benefit is now minimal in most cases. Persons who are not resident in the UK should consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming repayment and what relief or credit may be claimed in respect of such tax credit in the jurisdiction in which they are resident.

#### 8.4 *Stamp Duty and Stamp Duty Reserve Tax*

Transfers or sales of Ordinary Shares will be subject to *ad valorem* stamp duty (payable by the purchaser and generally at the rate of 50p per £100 or part thereof rounded up to the nearest £5) and an unconditional agreement to transfer such shares, if not completed by a duly stamped stock transfer form within two months of the day on which such agreement is made or becomes unconditional, will be subject to stamp duty reserve tax ("SDRT") (payable by the purchaser and generally at the same rate as stamp duty). However, if within 6 years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be cancelled or repaid.

**The above is a summary of certain aspects of current law and practice in the UK. A shareholder who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.**

### 9. WORKING CAPITAL

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

### 10. GENERAL

10.1 The total expenses of or incidental to Admission and the Placing which are payable by the Company are estimated to amount to approximately £350,000 (excluding value added tax). The Company has agreed to pay Daniel Stewart a commission at the rate of 5 per cent. of the value of New Ordinary Shares subscribed at the Placing Price.

10.2 Except as stated in this Document, there are no significant investments in progress by the Company.

10.3 The Directors are not aware of any exceptional factors that have influenced the Company's activities.

10.4 The Directors are not aware of any patents or other intellectual property rights, licences or particular contracts, which are or may be of fundamental importance to the Group's business.

10.5 haysmacintyre, Chartered Accountants, have given and not withdrawn their consent to the issue of this prospectus with the inclusion in it of their report and letter and references to their name in the form and context in which they respectively appear.

10.6 Daniel Stewart has given and not withdrawn its written consent to the issue of this prospectus with the inclusion in it of its name and references to its name in the form and context in which it appears.

10.7 Except as disclosed in this Prospectus, there has been no significant change in the financial or trading position of the Company since 31 December 2003, the date to which the latest audited financial statements were made up.

- 10.8 The minimum amount which, in the opinion of the Directors, must be realised and receivable by the Company pursuant to the Placing to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 to the POS Regulations is £700,000 which will be applied as follows:
- (a) the purchase of any property purchased or to be purchased – £NIL
  - (b) the payment of preliminary expenses payable by the Company and commissions payable in relation to the Placing – £285,000 excluding VAT
  - (c) the repayment of money borrowed by the Company in respect of (a) or (b) above – £NIL
  - (d) working capital – £415,000

There are no amounts to be provided otherwise than from the proceeds of the Placing in respect of the matters specified in Paragraphs 21(a) (i) to (iv) of Schedule 1 to the POS Regulations.

- 10.9 It is expected that definitive share certificates will be despatched by hand or first class post by 19 July 2004. In respect of shares in uncertificated form it is expected that CREST stock accounts will be credited on 14 July 2004.
- 10.10 The Placing Price of 16 $\frac{2}{3}$  pence per Placing Share is at a premium of 16 $\frac{1}{15}$  pence for each Placing Share above the nominal value of each Placing Share.
- 10.11 The financial information relating to the Company contained in this prospectus does not comprise statutory accounts for the purposes of Section 240 of the Act.
- 10.12 No person directly or indirectly (other than the Company's professional advisers and trade suppliers or save as disclosed in this Document) has in the last 12 months received or is contractually entitled to receive, directly or indirectly, from the Company on or after Admission, any payment or benefit from the Company to the value of £10,000 or more or securities in the Company to such value (calculated by reference to the Placing Price) or entered into contractual arrangements to receive the same from the Company at the date of Admission.
- 10.13 There is no Director or member of a Director's family who has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares.
- 10.14 Other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for admission been made nor are there intended to be any other arrangements for there to be dealings in the Ordinary Shares.

## **11. AVAILABILITY OF THIS DOCUMENT**

Copies of this Document will be available from the date of this document free of charge to the public on any week day (Saturdays, Sundays and public holidays excepted) at the offices of Daniel Stewart & Co., 48 Bishopsgate, London EC2N 4AJ and at the offices of Bird & Bird, Solicitors, 90 Fetter Lane, London EC4A 1JP until at least one month from Admission.

Dated: 5 July 2004