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Application will be made for the ordinary share capital of Debt Free Direct Group plc, both issued and to be issued, to be admitted to trading on the Alternative Investment Market of the London Stock Exchange plc (“AIM”). It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. The rules of AIM are less demanding than those of the Official List. 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 United Kingdom Listing Authority.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

London Stock Exchange plc has not itself examined or approved the contents of this document.

This document, which comprises a prospectus, has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (as amended) (“POS Regulations”) and the AIM Rules. A copy of this document has been delivered to the Registrar of Companies in England and Wales in accordance with Regulation 4(2) of the POS Regulations and has been issued in connection with the application for admission of the Ordinary Shares to trading on AIM.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution in or into the United States of America, Canada, Australia, South Africa, the Republic of Ireland or Japan. The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) nor under the securities legislation of any state of the United States of America or any province or territory of Canada, Australia, South Africa, the Republic of Ireland or Japan or in any country, territory or possession where to do so may contravene local securities law or regulations. Accordingly, the Ordinary Shares may not, subject to certain exceptions, be offered or sold directly or indirectly in or into the United States of America, Canada, Australia, South Africa, the Republic of Ireland or Japan or to any national, citizen or resident of the United States of America, Canada, Australia, South Africa, the Republic of Ireland or Japan.

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# DEBT FREE DIRECT GROUP PLC

*(Incorporated and registered in England and Wales under the Companies Act 1985 under registered number 4425339)*

## Proposed Acquisition of DFD (Investments) Limited and Placing of up to 933,927 New Ordinary Shares of 1p each At 40p Per Share and Admission to Trading on the Alternative Investment Market

*Nominated Adviser and Broker*

### W.H. Ireland Limited

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#### SHARE CAPITAL IMMEDIATELY FOLLOWING COMPLETION OF THE PLACING

Authorised share capital		Ordinary Shares of 1p each	Issued and fully paid following completion of the Acquisition and Placing*	
Number	Amount		Number	Amount
40,000,000	£400,000		22,500,000	£225,000

\*Assuming subscription in full

The Placing Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all other respects with all other Ordinary Shares which will be in issue on completion of the Placing.

W.H. Ireland Limited (“W.H. Ireland”) is regulated by the Financial Services Authority. Persons receiving this document should note that, for the purposes of the Placing, W.H. Ireland is acting exclusively for the Company and is not acting for any recipient of this document. W.H. Ireland will not be responsible to anyone other than the Company for providing either protections afforded to customers or clients of W.H. Ireland or for providing advice relevant to the contents of this document or in connection with the Placing.

W.H. Ireland has been appointed as nominated adviser to the Company in accordance with the AIM Rules. W.H. Ireland has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that to the best of its knowledge and belief all relevant requirements of the AIM Rules have been complied with. W.H. Ireland has not made its own enquiries except as to matters which have come to its attention and on which it considered it necessary to satisfy itself. W.H. Ireland accepts no liability whatsoever for the accuracy of any information or opinions contained in this document or for the omission of any material information.

The Directors of Debt Free Direct Group plc, whose names appear on page 6 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with 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.

W.H. Ireland has not authorised the contents or any part of this document for the purposes of Regulation 13(1)(g) of the POS Regulations or otherwise and no representation or warranty, express or implied, is made by W.H. Ireland as to any of the contents of this document.

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## DEFINITIONS

The following words and expressions shall have the following meanings in this document unless the context otherwise requires:

“Acquisition”	the acquisition of the entire issued share capital of DFD by the Company, conditional on Admission;
“Act”	the Companies Act 1985 (as amended);
“Admission”	the admission of the Existing Shares, the Consideration Shares and Placing Shares to trading on AIM and such admission becoming effective in accordance with Rule 6 of the AIM Rules;
“AIM”	the Alternative Investment Market of the London Stock Exchange;
“AIM Rules”	the rules published by the London Stock Exchange from time to time governing admission to and the operation of AIM;
“Board” or “Directors”	the directors of the Company whose names appear on page 6 of this document;
“Business”	the business of Debt Free Direct, being the provision of advice to individuals on their debt problems;
“Company” or “DFD plc”	Debt Free Direct Group plc (registered in England and Wales under number 4425339);
“Consideration Shares”	the 2,335,066 Ordinary Shares to be issued in consideration for the entire issued share capital of DFD pursuant to the Acquisition;
“CREST”	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo Limited;
“Debt Free Direct”	Debt Free Direct Limited (registered in England and Wales under number 4160038);
“DFD”	DFD (Investments) Limited (registered in England and Wales under number 4562911);
“DFD Shareholders”	the existing shareholders of DFD;
“Executive Directors”	each of Andrew Redmond, John Anthony Reynard and Paul Alan Latham;
“Existing Shares”	the 19,231,007 Ordinary Shares in the Company in issue at the date of this document;
“Group”	the Company and its wholly owned subsidiaries, as enlarged by the Acquisition;
“IVA”	individual voluntary arrangement;
“Listing Rules”	the listing rules issued by the UK Listing Authority;
“London Stock Exchange”	the London Stock Exchange plc;
“Minimum Subscription”	the sum of £100,500;
“Official List”	the Official List of the UK Listing Authority;
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company;
“Placing”	the proposed placing of up to 933,927 Ordinary Shares at the Placing Price pursuant to the Placing Agreement as described in this document;

“Placing Agreement”	the conditional agreement dated 4 December 2002 between (1) the Company, (2) the Directors and (3) W.H. Ireland further details of which are contained in paragraph 12.14 of Part VII of this document;
“Placing Price”	40p per Ordinary Share;
“Placing Shares”	the 933,927 Ordinary Shares which are the subject of the Placing;
“POS Regulations”	the Public Offers of Securities Regulations 1995 (as amended);
“Shareholders” or “Members”	holders of issued Ordinary Shares;
“UK”	the United Kingdom of Great Britain and Northern Ireland;
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of the Financial Services and Markets Act 2000, including where the context so permits, any committee, employee, officer or servant to whom any function of the UK Listing Authority may for the time being be delegated;
“W.H. Ireland”	W.H. Ireland Limited.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2002
Prospectus publication date	4 December
Admission effective and dealings in the Ordinary Shares commence	16 December
CREST stock accounts credited (as applicable)	16 December
Despatch of definitive share certificates by	23 December

## PLACING STATISTICS\*

Placing Price	40p
Number of Existing Shares	19,231,007
Number of Ordinary Shares to be issued under the Placing	933,927
Number of Ordinary Shares to be issued pursuant to the Acquisition	2,335,066
Number of Ordinary Shares in issue at Admission	22,500,000
Market capitalisation at the Placing Price at Admission	£9,000,000
Gross proceeds of Placing	£373,570
Estimated net proceeds of Placing and cash assets of DFD upon Admission	£450,500
Cash assets of DFD upon Admission	£226,430

\*Assuming subscription in full

## **DIRECTORS, SECRETARY AND ADVISERS**

<b>Directors</b>	Grenville John Folwell Andrew Redmond John Anthony Reynard Paul Alan Latham Ian William Currie	<i>(Non-Executive Chairman)</i> <i>(Chief Executive Officer)</i> <i>(Finance Director)</i> <i>(Executive Director)</i> <i>(Non-Executive Director)</i>
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all of  
55 St Thomas's Road  
Chorley  
Lancashire PR7 1JH

<b>Registered Office</b>	55 St Thomas's Road Chorley Lancashire PR7 1JH
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<b>Company Secretary</b>	John Anthony Reynard
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<b>Nominated Adviser and Broker to the Company</b>	W.H. Ireland Limited 11 St James's Square Manchester M2 6WH
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<b>Auditors and Reporting Accountants</b>	Horwath Clark Whitehill Arkwright House Parsonage Gardens Manchester M3 2HP
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<b>Solicitors to the Company</b>	Eversheds Eversheds House 70 Great Bridgewater Street Manchester M1 5ES
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<b>Solicitors to W.H. Ireland</b>	Fox Brooks Marshall Century House St Peter's Square Manchester M2 3DN
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<b>Registrars</b>	Northern Registrars Limited Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
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<b>Bankers</b>	Royal Bank of Scotland plc PO Box 546 100 Barbirolli Square Lower Mosley Street Manchester M60 2FT
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## **PART I – INFORMATION ON THE GROUP**

### **Introduction**

The Company was incorporated on 26 April 2002 to acquire the entire issued ordinary share capital of Debt Free Direct and DFD.

The principal aim of Debt Free Direct is to help individuals find the best solution to their debt problems, based upon an analysis of their particular financial circumstances. Financial information on an individual is processed through a computer model (“the Best Advice Model”) developed by Debt Free Direct in order to recommend a solution suitable for that individual’s particular financial circumstances. Income for Debt Free Direct is primarily generated through agreed fees charged to individuals for the solutions provided.

The Executive Directors, having developed Debt Free Direct from private resources since formation, now wish to raise funds for the Group in part to increase marketing and advertising in order to attract additional customers but also to provide working capital and to reduce the aggregate amount of Directors’ loans to the Group by £350,000 (less the amount, if any, by which the Placing is undersubscribed). The funds available to the Group after completion of the Acquisition and Placing will be approximately £450,500 net of expenses.

### **Proposed Transaction**

DFD has not traded and, as at Admission, will have cash assets of approximately £226,430. The Company has agreed, conditional on Admission, to acquire the entire issued ordinary share capital of DFD in consideration for the issue of 2,335,066 new fully paid Ordinary Shares.

Further details of the Acquisition are set out in paragraph 12.11 of Part VII of this document.

### **History and Background**

The business of Debt Free Direct was originally established by Lathams, Chartered Accountants, in 1997 following the introduction of IVAs by the Insolvency Act 1986. IVAs were introduced as an alternative to bankruptcy, enabling individuals to reach a legally binding compromise with their creditors. However, compared to the bankruptcy process, comparatively few individuals utilised the IVA process. The Directors believe that this was primarily due to the fact that individuals were unaware of the IVA process and that they could not afford to pay the licensed insolvency practitioner required to negotiate, draft and implement a proposal for an IVA.

In February 2000, DFD (Realisations) Limited was incorporated to coordinate advertisements for the Business. However, this arrangement ceased on 1 May 2002 since when Debt Free Direct has coordinated its own advertisements. On 15 February 2002 the Business was sold by the partners of Lathams to Debt Free Direct. The majority of the consideration, totalling £601,714, due to the partners of Lathams on the sale of the Business to Debt Free Direct is still outstanding. In addition, further payments are to be made by Debt Free Direct to the partners of Lathams by way of redemption of preference shares held by them in the capital of Debt Free Direct amounting in aggregate to £2,325,033. These preference shares rank ahead of all other classes of shares in Debt Free Direct on a winding up.

As part of the sale of the Business to Debt Free Direct, the parties entered into certain arrangements mainly for the benefit of those former Lathams partners who ceased to have an equity interest in the Business after its sale. These provide for the holders of “B” deferred shares (and hence not just the Company) to receive payments on certain events such as a sale or listing of Debt Free Direct or its holding company. The Placing and Admission does not represent such an event.

To protect their investment, certain strategic matters in Debt Free Direct cannot be undertaken without the consent of 65 per cent. (or in limited circumstances 100 per cent.) of the holders of preference shares. Further details of this are set out in paragraph 12.3 of Part VII of this document.

Under the terms of a share exchange agreement dated 2 December 2002, the Company agreed to acquire the entire issued ordinary share capital of Debt Free Direct.

Further details of the arrangements described above are set out in paragraphs 12.1 to 12.4 of Part VII of this document.

### **The Market and Competition**

Debt Free Direct operates in a rapidly expanding marketplace that is served by a range of solution providers. Each of these solution providers market their particular solution to consumers who, through mismanagement or misfortune, have become overexposed to debt. Whilst these companies offer a number of very different solutions, it is often difficult from their advertisements to distinguish exactly what solution a particular company is offering.

Debt Free Direct's competitors include:-

- Banks and other financial institutions offering consolidation loans, re-mortgages and additional advances
- Debt management companies
- Insolvency practitioners

Debt Free Direct also competes with the not for profit advisory organisations, such as the Citizens Advice Bureau and the Consumer Credit Counselling Service, who promote self-help plans and debt management.

Debt Free Direct is different from most of the other companies operating in this market because it does not just offer one solution but a complete range of solutions from loans and mortgages to self-help and debt management programmes through to formal insolvency procedures.

Increasing numbers of individuals living in the UK are encountering debt problems. Whilst Citizens Advice Bureaux offer free and independent advisory services to individuals with debt and other problems, the Directors do not believe that the advice given always meets the particular requirements of each individual. Many individuals, therefore, turn to debt management companies to help deal with their debt problems. The Directors believe that there are currently around one hundred debt management companies in the United Kingdom.

The Directors believe that the main concerns raised about debt management companies in general are that:

- (a) the charges levied by some companies are high;
- (b) existing companies in the market do not necessarily recommend the best solution to an individual's debt problems; and
- (c) in many cases there is a lack of full advice provided to individuals.

Debt Free Direct, therefore, provides a professional service, analysing an individual's particular financial circumstances so as to be able to recommend the most appropriate solution to that individual's debt problems.

### **The Business**

Debt Free Direct attracts clients primarily by advertising through a number of media channels including press, radio, television (satellite and terrestrial), billboard and directories. Individuals respond to the advertisements by calling a free telephone number and the advisory team collects personal and financial details which are then immediately processed through the Best Advice Model. The resulting recommendation is then provided directly to the individual over the telephone. The solutions offered range from basic advice, such as simply destroying credit cards and curbing unnecessary expenditure, to the following solutions:

- IVA;
- informal arrangement;



- re-mortgage;
- consolidation loan (usually unsecured); and
- bankruptcy.

(a) *IVA*

An IVA is a legally binding, court approved agreement between an individual and that individual's creditors under which the individual agrees to repay his/her debts by making an affordable monthly payment for a given period (typically five years). If the individual is a property owner he/she may also agree to take reasonable steps to try to release any equity in that property by way of a re-mortgage towards the end of the IVA process. At the end of the IVA process, the individual's creditors are legally obliged to write off any remaining outstanding debt.

The Best Advice Model has been designed to analyse each individual's circumstances and identify those individuals who will benefit from an IVA. If it indicates that an IVA is the most appropriate solution for an individual's debt problems, the case is processed by Debt Free Direct's IVA department and, if approved, the IVA is progressed with the individual's consent and subject to his/her creditors' approval.

The clients of Debt Free Direct pay a fee for the administration of an IVA. This fee is typically paid annually over a five year period. The majority (approximately 95 per cent.) of Debt Free Direct's income is generated through processing IVAs.

(b) *Informal Arrangement*

Under an informal arrangement, an individual's creditors generally agree to extend the repayment periods for his/her debts. However, it is not legally binding and all debts must ultimately be fully repaid. Debt Free Direct offers two ways of resolving debt problems through an informal arrangement with either:

- (i) a managed informal arrangement whereby Debt Free Direct refers the individual to Payplan Limited, ("Payplan") an unconnected company which manages the informal arrangement on behalf of the individual. The service offered by Payplan is free to the individual. Payplan receives its fee from the individual's creditors whilst Debt Free Direct receives a fixed fee per case from Payplan; or
- (ii) a self-help pack which contains all the necessary paperwork, including a personalised income and expenditure account, a full analysis of all the monthly payments that need to be made to each creditor and letters to creditors to explain the individual's situation. The self-help pack is provided to individuals free of charge and generates goodwill and customer referral.

(c) *Re-mortgage*

This can be a suitable solution for homeowners with equity in their property. Where this is the appropriate solution, Debt Free Direct refers individuals to professional firms of independent financial advisers and usually receives a percentage of any relevant commission.

(d) *Consolidation Loan*

This is a new loan taken out to repay all the individual's existing unsecured debts. Many individuals who contact Debt Free Direct have already tried to obtain such a loan. However, if this is a potential solution, Debt Free Direct recommends possible lenders to the individual and usually receives a percentage of any associated commission.

(e) *Bankruptcy*

If an individual is made bankrupt, a trustee is appointed to manage his/her financial affairs and to sell a sufficient amount of that individual's property in order to repay his/her debts.

Although bankruptcy can be the only feasible solution in certain circumstances, it is one that most individuals wish to avoid. If bankruptcy is the recommended solution, Debt Free Direct provides the individual with a leaflet detailing the course of action the individual should follow but no fee is charged.

Whilst Debt Free Direct aims to offer the best solution to each individual's debt problems, the principal fee-generating solution effected by Debt Free Direct is an IVA.

The Directors believe from the research they have undertaken that the majority of Debt Free Direct's potential competitors focus on debt management rather than processing IVAs. The Directors believe that by providing a professional service in order to recommend the most appropriate solution to a particular individual's debt problem but specialising in IVAs, Debt Free Direct distinguishes itself from debt management companies.

### **Reasons for the Acquisition, Placing and Admission**

The net proceeds of the Placing and the cash assets of DFD upon Admission, which together aggregate approximately £450,500, will be used in part to provide additional capital for advertising and marketing the Business and also to provide working capital for the resulting anticipated growth of the Business. £350,000 (less the amount, if any, by which the Placing is undersubscribed) of this sum will be used to reduce the aggregate amount of Directors' loans to the Group. The Directors believe that the associated benefits of Placing and Admission include:

#### *Corporate Profile*

The performance of the Group should benefit from the status of being a public company with its shares admitted to trading on AIM.

#### *Access to Capital Markets*

The Group may need to raise further funds in the future to develop its business or to finance any cash element of the consideration for any acquisition. In the opinion of the Directors, the cost of capital for a publicly traded company should be lower and capital should be more freely available than for an equivalent company which is privately owned.

#### *Acquisition consideration*

Many vendors prefer to take publicly traded shares, in whole or in part, as consideration rather than shares which are not publicly traded.

#### *Management appeal*

As a public company, it should be easier for the Company to attract suitable management to assist in the development of the Group.

The Directors believe that it may become necessary for the Company to raise additional funds in the future to implement its business objectives. In order to facilitate a future fundraising, the Directors have authority under section 95 of the Act to allot Ordinary Shares for cash representing a further 10 per cent. of the issued Ordinary Shares following the Placing on a non pre-emptive basis. This authority will expire on the earlier of the Company's next annual general meeting or 2 March 2004.

### **Directors and Senior Management**

#### ***Directors***

The Board comprises five Directors. Brief biographies of each of the Directors are set out below:

#### **Grenville John Folwell CPFA and FCT (aged 59) Non-Executive Chairman**

Gren Folwell was Deputy Chief Executive of Halifax plc from 1996 to 1999, having joined the board as Group Finance Director in 1989. During his time on the board of Halifax plc he played a central role in the merger and subsequent integration of the Halifax and Leeds Permanent

Building Societies. He played a key role in the £18 billion flotation of Halifax plc, and negotiated on a number of acquisitions, including the successful £750 million hostile takeover of Birmingham Midshires Building Society.

Mr Folwell's other current non-executive directorships include the Public Private Partnerships Programme Limited, Institute of Public Finance Limited and a number of Halifax plc subsidiaries. In 1995 Gren was president of the Chartered Institute of Public Finance and Accountancy.

**Andrew Redmond FCA and JIEB (aged 40), Chief Executive Officer**

Andrew Redmond qualified as an accountant at PricewaterhouseCoopers and worked in its corporate recovery and corporate finance departments until 1994 when he joined Lathams, Chartered Accountants, as a partner and subsequently headed the corporate recovery department. Following the acquisition of Lathams by Tenon Group plc in 2001, he was appointed as Tenon's regional chairman for the Northern Region.

**John Anthony Reynard FCA (aged 43) Finance Director**

John Reynard graduated with a degree in law and qualified as a chartered accountant. He specialised in forensic accounting and joined Lathams, Chartered Accountants in 1995 as a partner. Following the acquisition of Lathams by Tenon Group plc in 2001, he was appointed managing director of Tenon Group Plc's forensic service line in the UK.

**Paul Alan Latham FCA (aged 44) Executive Director**

Paul Latham qualified as a chartered accountant with Crossley & Davis which subsequently became Latham Crossley & Davis and later became Lathams, Chartered Accountants where he became a partner in 1986. Following the acquisition of Lathams by Tenon Group plc in 2001, Mr Latham became national head of Tenon Group plc's business consultancy service where he currently specialises in strategic business planning for the owner-managed business/mid corporate sector.

**Ian William Currie ACA (aged 41) Non-Executive Director**

Ian Currie has a BA (Hons) degree in Economics from Manchester University and is a qualified Chartered Accountant. Mr Currie has had a wide experience of corporate activity including flotations, capital raisings and mergers and acquisitions. Prior to forming the Manchester office of Altium Capital Ltd. in 1996, Ian Currie was Head of Corporate Finance in the North of England for Peel Hunt & Co. Ltd.

None of the Executive Directors, whose consultancy services are provided through Tenon Limited, is committed to work more than two days per week in the Group. It is intended that, within six months from Admission, Andrew Redmond will be engaged as Chief Executive Officer on a full time basis, or that an alternative full time chief executive officer will be engaged by the Company. Further details of the terms of the Directors' appointments are summarised in paragraph 6 of Part VII of this document.

***Senior Management***

In addition to the Executive Directors, the two key members of the management team of Debt Free Direct are Gill Wrigley and Georgina Earle.

*Gill Wrigley* is the Insolvency Practitioner within Debt Free Direct and manager responsible for the IVA team. She qualified as an ACA at PricewaterhouseCoopers in 1993 and obtained her practicing certificate and insolvency licence in January 2002. She joined Debt Free Direct in June 2001.

*Georgina Earle* is manager responsible for the advice team. She began her career with Airtours plc and has worked in the call centre industry for twelve years. In October 1999, she joined Sharp Electronics (U.K.) Ltd. and established and managed their first direct sales unit before

joining CSC, a global outsourcing corporation in January 2000. She joined Debt Free Direct as project manager in July 2001.

### **Current Trading and Prospects**

The Company has only recently been formed and the Group has not published any consolidated financial information. Accountants' reports on each of the Company, Debt Free Direct and DFD are set out in Parts III to V respectively of this document.

The Directors view the prospects of the Group with confidence and, based on predicted enquiry levels from potential clients, the Directors believe that revenue will continue to increase in the foreseeable future without a proportional change in the Business' cost base other than marketing and advertising. The Directors believe this is a growing sector of the financial services market.

### **Preference Shares and Loan Notes**

The Company has entered into an agreement with the holders of loan notes in Debt Free Direct and with the holders of preference shares in Debt Free Direct. Under this agreement, the Company guarantees the repayment of the loan notes which were issued when Debt Free Direct acquired the Business from the partners of Lathams, Chartered Accountants, and grants to the holders of preference shares in Debt Free Direct the right (exercisable within one month of the due date for redemption of such shares) to require the Company to acquire such shares for an amount equal to the sum otherwise payable by Debt Free Direct upon the redemption of such shares.

The ability of the Company to meet the above obligations is dependent on the Company's ability to generate the cash to do so. There is no certainty that the Company will be able to discharge such obligations. If it fails to do so, the Company could be sued by the preference shareholders and ultimately wound up.

The amounts due on repayment/redemption of the loan notes and preference shares in Debt Free Direct are as follows:

<b>Date of repayment/redemption</b>	<b>Basis of repayment/ redemption</b>	<b>Amount £</b>
by 31 January 2004	'A' loan notes	446,042
on or before 28 February 2004	'A' preference shares	285,645
by 31 January 2005	'B' loan notes	129,581
on or before 31 January 2005	'B' preference shares	602,107
on or before 31 January 2006	'C' preference shares	731,687
by 31 January 2007	'D' loan notes	26,091
on or before 31 January 2007	'D' preference shares	705,594
		2,926,747

Further details of the terms of repayment and redemption of the loan notes and preference shares are set out in paragraphs 12.2, 12.3 and 12.6 respectively of Part VII of this document. If the preference shares set out above are not redeemed on the due date for redemption then the amount payable on redemption accrues interest at a rate of 5 per cent. per annum above the base rate of the Royal Bank of Scotland plc, calculated on a daily basis.

### **Dividend Policy**

The Directors intend to commence the payment of dividends when it is commercially prudent to do so and subject to the availability of distributable reserves. The Company's strategy is to focus on the development of the Group's business and the Directors consider that it is likely to be more prudent to retain cash generated to fund expansion during a period of growth. It is

therefore inappropriate to give an indication of the likely level or timescale for the payment of any future dividends.

### **Taxation**

General information relating to UK taxation with regard to Admission and Placing is summarised in paragraph 10 of Part VII of this document. A shareholder who is in any doubt as to his tax position, or is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

### **Corporate Governance**

The Board recognises the importance of sound corporate governance whilst taking into account the size and nature of the Group. As the Group grows, the Directors intend that the Group should develop policies and procedures which reflect the Principles of Good Governance and Code of Best Practice as published by the Committee on Corporate Governance (commonly known as “the Combined Code”), as are appropriate to a group of this size. The Board will take such measures, so far as is practicable, to comply with the Combined Code.

The Company has adopted a code of dealing based on the model code appended to Chapter 16 of the Listing Rules and will take all reasonable steps to ensure compliance by the Directors and relevant employees with that code of dealing, which also encompasses the provisions of rule 19 of the AIM Rules relating to restrictions on dealings. The Directors have established an Audit Committee and a Remuneration Committee with formally delegated duties and responsibilities. Each of the Committees consists of at least two non-executive directors.

The Audit Committee will determine the terms of engagement of the Group’s auditors and will determine, in consultation with the auditors, the scope of the audit. It 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 has unrestricted access to the Group’s auditors.

The Remuneration Committee will review the scale and structure of the executive directors’ and senior employees’ remuneration and the terms of their service contracts, including share option schemes. The remuneration, terms and conditions of the non-executive directors will be set by the Directors.

### **Details of the Placing**

The Company is proposing to raise up to approximately £373,570 (before expenses) by the placing of up to 933,927 Ordinary Shares, representing approximately 4.15 per cent. of the enlarged issued ordinary share capital of the Company on Admission.

Details of the Directors’ shareholdings are set out in paragraph 5.1 of Part VII of this document. The Placing is conditional, *inter alia*, on Admission and upon the Minimum Subscription being subscribed for.

### **Admission and Dealing Arrangements**

Application will be made for the ordinary share capital of the Company, both issued and to be issued, including the Existing Shares, the Consideration Shares and the Placing Shares to be admitted to trading on AIM. The Company’s Articles of Association permit the Company to issue shares in uncertificated form in accordance with the Uncertificated Securities Regulations 2001. Application will be made for the Company’s Ordinary Shares to be admitted to CREST on Admission. CREST is a voluntary system and the holders of Ordinary Shares who wish to receive and retain certificates will be able to do so.

It is expected that trading in the Ordinary Shares will commence on 16 December 2002. Copies of this document will be available to the public free of charge from W.H. Ireland Limited, 11 St James’s Square, Manchester M26 6WH from the date of this document for a period of not less than one month from the date of Admission.

### **Lock-in Arrangements**

The Directors' aggregate interests in Ordinary Shares following Admission will amount to 15,206,497 Ordinary Shares (representing 67.58 per cent. of the enlarged issued ordinary share capital of the Company following Admission\*). The Directors have entered into lock-in arrangements under the Placing Agreement in respect of their shareholdings whereby they have each agreed for a period of two years from Admission not (save for certain limited exceptions) to dispose (and to procure that their related parties do not dispose) of any interest in Ordinary Shares registered in their names or in which they are beneficially interested immediately following Admission, nor any Ordinary Shares acquired during such period or deriving from such Ordinary Shares, without the consent of W.H. Ireland.

Keith Seeley and Derek Oakley have entered into lock-in arrangements in respect of their shareholdings on the same terms as the lock-in arrangements entered into by the Directors.

In addition, the DFD Shareholders have each entered into lock-in agreements with the Company and W.H. Ireland in respect of the Consideration Shares (representing 10.37 per cent of the enlarged issued ordinary share capital of the Company following Admission\*,) whereby they have each agreed not to dispose (and to procure that their related parties do not dispose) of any interest in the Consideration Shares nor any Ordinary Shares deriving from the Consideration Shares for a period of two years from Admission without the prior written consent of W.H. Ireland.

\*Assuming subscription in full.

## PART II – RISK FACTORS

*In addition to the other relevant information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The investment offered in this 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 2000 who specialises in advising on the acquisition of shares and other securities.*

There are various risk factors associated with an investment of the type described in this document. In particular:

- **General**

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 traded on AIM is likely to be less realisable and may carry a higher degree of risk than an investment in a share traded on the Official List. A prospective investor should consider with care whether an investment in the Company is suitable for him in the light of his personal circumstances and the financial resources available to him.

- **Limited trading history**

Debt Free Direct has only a limited operating history and it is therefore difficult to evaluate the Group's business and future prospects. The future success of the Group will depend on the Directors' ability to implement its strategy. Whilst the Directors are optimistic about the Group's prospects, there is no certainty that anticipated revenues or growth will be achieved.

- **Operating results are volatile and difficult to predict**

Operating results may fluctuate significantly in the future due to a variety of factors, many of which are outside the Group's control. These factors include seasonal and economic patterns and trends which may affect the markets for the products and services the Group offers.

- **Brand recognition**

Establishing, enhancing and maintaining the Debt Free Direct brand is fundamental to the Group's efforts to attract and expand its customer base. Promotion of the Debt Free Direct brand will depend largely on marketing and advertising which may not be effective to promote the brand. Even if recognition of the brand increases, it may not lead to an increase in the number of customers.

- **Loan Notes and Preference Shares**

If the Company is unable to generate sufficient cash to meet its obligations to make certain payments to the holders of loan notes and preference shares in Debt Free Direct (as described in this document) the Company will be in breach of contract which could ultimately result in its winding-up.

- **Requirement for further funds**

There may be a requirement for the Company to raise further funds in the future in order to fully exploit opportunities available and fund expansion of the Group. Such a funding requirement may be by way of the issue of further Ordinary Shares on a non pre-emptive basis. There is no commitment in place guaranteeing that any funds required in the future will be available and, if further equity finance is raised, existing shareholdings may be diluted.

- **Other directorships and interests**

Investors should note that none of the non-executive Directors are in any way limited (other than by their normal duties as company directors) by way of their involvement with the Group, from acting in the management or conduct of the affairs of any other company. In addition, none of the Executive Directors is required to work more than two days per week in the Business and their principal employer therefore remains as Tenon Group plc and not the Company. Should any conflicts of interest be identified they will be declared and dealt with appropriately by the Directors.

- **Dependence on senior management and employees**

As with any company, the Group's performance is dependent upon the continued services and the performance of its senior management and other key personnel. The loss of the services of its senior management or key employees in particular a licensed insolvency practitioner could have a detrimental effect on the Group.

- **Legislation and compliance**

The Business is founded upon the insolvency processes existing under current insolvency legislation. Any change in insolvency legislation (and, in particular, any change which results in the IVA process either being unavailable or less attractive to individuals with debt problems) or the introduction of additional stringent compliance regulations could significantly affect the ability of the Company to operate in its current form. This includes any implications of the Enterprise Bill currently going through the legislative process, should it be enacted.

- **The Market**

The market in which the Business operates has relatively low barriers to entry and there can be no guarantee that Debt Free Direct will be able to respond to competitive challenges effectively, particularly if an organisation with substantial financial resources decides to enter the market.

In addition, public perception of debt management companies may alter which could have adverse affects on the Business.

- **Economic, political, judicial, administrative, taxation or other regulatory matters**

The Company may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, as well as other unforeseen matters.



## PART III – ACCOUNTANTS’ REPORT ON DEBT FREE DIRECT GROUP PLC

**HORWATH  
CLARK WHITEHILL**  
*Chartered Accountants*

The Directors  
Debt Free Direct Group plc  
55 St. Thomas’s Road  
Chorley  
Lancashire  
PR7 1JE

A member of Horwath International

Arkwright House  
Parsonage Gardens  
Manchester  
M3 2HP  
www.horwathcw.com

and

The Directors  
W.H. Ireland Limited  
11 St. James’s Square  
Manchester  
M2 6WH



4 December 2002

Dear Sirs

### **DEBT FREE DIRECT GROUP PLC – “DFD PLC”**

We report on the financial information set out in paragraph 2 below which has been prepared for inclusion in the Prospectus of DFD plc dated 4 December 2002 issued in connection with the acquisition by DFD plc of the whole of the issued ordinary share capital of DFD (Investments) Limited (“DFD”) and the placing and admission of DFD plc’s shares to trading on the Alternative Investment Market of the London Stock Exchange.

#### **1. INTRODUCTION**

DFD plc was incorporated in England and Wales on 26 April 2002 with company number 04425339 with an authorised share capital of £100,000 comprising 100,000 ordinary shares of £1 each of which two subscriber shares were issued. DFD plc’s name on incorporation was YPCS 120 PLC and on 22 May 2002 its name was changed to Debt Free Direct Group plc.

On 2 December 2002 DFD plc’s authorised share capital was subdivided into 10,000,000 ordinary shares of 1p each and was increased to £400,000, comprising 40,000,000 ordinary shares of 1p each.

On 2 December 2002 DFD plc acquired the entire issued ordinary share capital of Debt Free Direct Limited the consideration for which was the issue of 19,230,807 ordinary shares of 1p.

#### **Basis of Preparation of Financial Information**

The financial information set out below is based on non statutory financial statements which have been prepared by the Directors of DFD plc for the purpose of this Prospectus and covers the period 26 April 2002 to 31 October 2002.

As there has been no trading activity nor dividends paid from the date of incorporation to 31 October 2002, a profit and loss account has not been presented.

#### **Responsibility**

The financial statements of DFD plc are the responsibility of the Directors of DFD plc and have been approved by them. The Directors of DFD plc are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the financial information set out in this report from the financial statements to form an opinion on the financial information and 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. 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 DFD plc'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 set out below gives for the purpose of the Prospectus a true and fair view of the state of affairs of DFD plc as at 31 October 2002.

## **Consent**

We consent to the inclusion in the Prospectus dated 4 December 2002 of this report and accept responsibility for the report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## **2. FINANCIAL INFORMATION ON DEBT FREE DIRECT GROUP PLC FOR THE PERIOD**

26 April 2002 to 31 October 2002

### **2.1 Balance sheet as at 31 October 2002**

	<b>£</b>
<b>Current Assets</b>	
Cash	2
Net Assets	<u>2</u>
<b>Capital and Reserves</b>	
Called up share capital	2
Shareholder funds	<u>2</u>

### **2.2 Notes to the Financial Information**

#### **2.2.1 Accounting Policies**

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

#### **2.2.2 Share Capital**

	<b>£</b>
<b>Authorised Share Capital</b>	
100,000 ordinary shares of £1 each	<u>100,000</u>
<b>Allotted, called up and fully paid</b>	
2 ordinary shares of £1 each	<u>2</u>

### **2.2.3 Post Balance Sheet Events**

On 2 December 2002 the authorised share capital was subdivided into 10,000,000 ordinary shares of 1p each and was increased to £400,000 comprising 40,000,000 ordinary shares of 1p each.

On 2 December 2002 DFD plc acquired the entire issued ordinary share capital of Debt Free Direct Limited the consideration for which was the issue of 19,230,807 ordinary shares of 1p.

Yours faithfully

**Horwath Clark Whitehill**

## PART IV – ACCOUNTANTS’ REPORT ON DEBT FREE DIRECT LIMITED

**HORWATH  
CLARK WHITEHILL**  
*Chartered Accountants*

The Directors  
Debt Free Direct Group plc  
55 St. Thomas’s Road  
Chorley  
Lancashire  
PR7 1JE

A member of Horwath International

Arkwright House  
Parsonage Gardens  
Manchester  
M3 2HP  
www.horwathcw.com

and

The Directors  
W.H. Ireland Limited  
11 St. James’s Square  
Manchester  
M2 6WH



4 December 2002

Dear Sirs

### **DEBT FREE DIRECT LIMITED – “DEBT FREE DIRECT”**

We report on the financial information set out in paragraphs 2 to 6 below which has been prepared for inclusion in the Prospectus of Debt Free Direct Group plc dated 4 December 2002 (“the Prospectus”) issued in connection with the acquisition by Debt Free Direct Group plc of the whole of the issued ordinary share capital of DFD (Investments) Limited (“DFD”) and the placing and admission of Debt Free Direct Group plc’s shares to trading on the Alternative Investment Market of the London Stock Exchange.

#### **1. INTRODUCTION**

Debt Free Direct’s name on incorporation was EVER 1502 Limited. On 22 February 2002 Debt Free Direct’s name was changed to Lativa Limited and then on 6 June 2002 the name was changed to Debt Free Direct Limited.

Debt Free Direct was incorporated in England and Wales on 14 February 2001 with company number 04160038. On incorporation Debt Free Direct had an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 of which one subscriber share was issued.

On 15 February 2002, Debt Free Direct’s authorised share capital was restructured and on the same day various shares were allotted. Full details of movements in share capital are given in note 6.10.

On 15 February 2002 Debt Free Direct acquired the business assets relating to the administration of individual voluntary arrangements (“IVA Business”) from Latham Chartered Accountants. The consideration comprised cash totalling £244,471 and ‘A’, ‘B’ and ‘D’ loan notes totalling £601,714. In addition, to assist in the cash payments as part of this consideration, debenture loans totalling £100,000 and directors loans totalling £192,471 were issued by Debt Free Direct.

On 2 December 2002 the whole of the issued ordinary share capital of Debt Free Direct was acquired by Debt Free Direct Group plc the consideration for which was the issue of shares in Debt Free Direct Group plc.

### **Basis of preparation of financial information**

The financial information set out in paragraphs 2 to 6 below is based on the audited statutory financial statements of Debt Free Direct from the date of incorporation on 14 February 2001 to 30 April 2002. The financial information has been prepared on the basis of the accounting policies set out in paragraph 5 below.

There has been no trading activity and no dividends paid from 14 February 2001 to 15 February 2002. The profit and loss account presented reports the period of trading from 15 February 2002 to 30 April 2002.

The business acquired on 15 February 2002 had previously operated as part of Lathams, Chartered Accountants. Separate accounting records were not kept and it is not possible to provide financial information relating to the previous three years profit and loss accounts or balance sheets as required by the Public Offers of Securities Regulations 1995.

### **Responsibility**

The financial statements are the responsibility of the directors of Debt Free Direct, and have been approved by them.

The Directors of Debt Free Direct Group plc are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the financial information set out in this report from the financial statements, to form an opinion on the financial information and 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 our audit of the statutory financial statements of Debt Free Direct for the period ended 30 April 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 Debt Free Direct'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 set out below gives for the purpose of the Prospectus a true and fair view of the state of affairs of Debt Free Direct at 30 April 2002, and of its loss, cash flows and recognised gains and losses for the period then ended.

### **Consent**

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

## 2. PROFIT AND LOSS ACCOUNT FOR THE PERIOD

15 February 2002 to 30 April 2002

	Note	Period ended 30 April 2002 £
Turnover		296,896
Cost of sales		(178,966)
Gross Profit		117,930
Administrative expenses		(360,176)
Operating Loss	6.1	(242,246)
Interest receivable		254
Interest payable		(3,105)
Loss on ordinary activities before Taxation		(245,097)
Tax on loss on ordinary activities		–
Loss for the Financial Period		(245,097)

The company has no recognised gains or losses other than the results for the period as set out above.

All of the activities of the company are classed as continuing.

## 3. BALANCE SHEET as at 30 April 2002

	Note	£	Period ended 30 April 2002 £
<b>Fixed Assets</b>			
Intangible assets	6.3		2,079,201
Tangible assets	6.4		149,227
			2,228,428
<b>Current Asset</b>			
Debtors	6.5	549,354	
Cash at bank and in hand		109,228	
		658,582	
<b>Creditors: amounts falling due within one year</b>	6.6	(628,446)	
<b>Net Current Assets</b>			30,136
<b>Total Assets Less Current Liabilities</b>			2,258,564
<b>Creditors: amounts falling due after more than one year</b>	6.7		(636,922)
<b>Net Assets</b>			1,621,642
<b>Capital and Reserves</b>			
Called-up share capital	6.10		339
Other Reserve	6.11		1,866,400
Profit and Loss Account			(245,097)
<b>Shareholders' Funds</b>	6.12		1,621,642
Equity shareholders' funds			(244,758)
Non-equity shareholders' funds			1,866,400
			1,621,642

#### 4. CASH FLOW STATEMENT FOR THE PERIOD

15 February 2002 to 30 April 2002

	Note	£	Period Ended 30 April 2002 £
<b>Net Cash outflow from Operating Activities</b>	6.13		(2,937)
<b>Returns on Investments and Servicing of Finance</b>			
Interest received		254	
Interest paid		(3,105)	
		<hr/>	
<b>Net Cash Inflow from Returns on Investments and Servicing of Finance</b>			(2,851)
<b>Capital Expenditure</b>			
Payments to acquire tangible fixed assets		(30,587)	
		<hr/>	
<b>Net Cash Outflow from Capital Expenditure</b>			(30,587)
<b>Acquisitions and disposals</b>			
Cash consideration on purchase of IVA business		(244,471)	
Cash acquired with IVA business		102,403	
		<hr/>	
<b>Net cash outflow from acquisitions and disposals</b>			(142,068)
<b>Cash Outflow before Financing</b>			
<b>Financing</b>			
Issue of equity share capital		339	
Debt due within a year			
increase in debenture loans		100,000	
increase in director/related party loans		192,471	
Capital element of finance lease payments		(5,139)	
		<hr/>	
Net cash inflow from financing			287,671
			<hr/>
<b>Increase In Cash</b>	6.13		109,228
			<hr/> <hr/>

#### 5. ACCOUNTING POLICIES

The principal accounting policies of Debt Free Direct are set out below:

(a) *Basis of accounting*

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

(b) *Turnover*

The turnover shown in the Profit and Loss Account represents amounts invoiced or due during the period, exclusive of Value Added Tax.

(c) *Goodwill*

Positive purchased goodwill arising on acquisition is capitalised, classified as an asset on the balance sheet, and amortised over its estimated useful life of ten years. This length of time is deemed adequate by the directors.

Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and in subsequent years as and when necessary if circumstances emerge that indicate that the carrying value may not be recoverable.

(d) *Depreciation*

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Computer equipment	–	25 per cent. p.a. reducing balance method
Fixtures & Fittings	–	25 per cent. p.a. reducing balance method

(e) *Operating lease agreements*

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

(f) *Hire purchase and finance lease agreements*

Assets held under hire purchase and finance lease agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the Profit and Loss Account on a straight line basis.

(g) *Deferred taxation*

Provision is made, under the liability method, to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is considered that a net liability may arise. However, deferred tax has not been provided for in the accounts as the amounts involved are not material.

## 6. NOTES TO THE FINANCIAL STATEMENTS

### 6.1 Operating loss

Operating loss is stated after charging:

	<b>Period ended 30 April 2002 £</b>
Depreciation	11,067
Operating lease costs:	
– Land and buildings	7,353
– Equipment and machinery	4,102



## 6.2 Information on directors and employees

### Staff costs

The average monthly number of staff employed by Debt Free Direct from the commencement of trade on 15 February 2002 to 30 April 2002 amounted to:

	<b>No.</b>
Number of advice team staff	24
Number of IVA processing team staff	13
Number of directors	3
	<hr/>
	40
	<hr/> <hr/>

The aggregate payroll costs of the above were:

	<b>Period ended 30 April 2002 £</b>
Wages and salaries	159,791
Social security costs	19,175
	<hr/>
	178,966
	<hr/> <hr/>
Directors' emoluments	–
<b>Directors' aggregate emoluments in respect of qualifying services:</b>	<hr/> <hr/> <b>–</b>

## 6.3 Intangible fixed assets

	<b>Purchased Goodwill £</b>
<b>Cost</b>	
Additions during the period	2,079,201
<b>At 30 April 2002</b>	<hr/> 2,079,201
<b>Amortisation</b>	
Charge for the period	–
<b>At 30 April 2002</b>	<hr/> –
<b>Net Book Value</b>	
<b>At 30 April 2002</b>	<hr/> <hr/> 2,079,201

On 15 February 2002 Debt Free Direct acquired the IVA Business from Lathams Chartered Accountants for a consideration comprising £244,471 in cash and £601,714 in 'A', 'B' and 'D' loan notes. At the same date partners in Lathams, Chartered Accountants, subscribed for 2,325,033 preference shares of 0.01p each. To reflect this transaction the present value of the premiums payable on redemption of the preference shares of £1,866,400 has been included in the valuation of goodwill. Details of these preference shares are summarised in paragraphs 6.10 and 6.11. The Directors consider that an amortisation rate of 10 per cent. to commence on 1 May 2002 is appropriate for this goodwill.

#### 6.4 Tangible fixed assets

	<b>Computer equipment £</b>	<b>Fixtures &amp; Fittings £</b>	<b>Total £</b>
<b>Cost</b>			
Assets acquired with IVA business	112,228	34,258	146,486
Additions from 15 February 2002	14,845	15,742	30,587
<b>At 30 April 2002</b>	<u>127,073</u>	<u>50,000</u>	<u>177,073</u>
<b>Depreciation</b>			
Assets acquired with IVA business	14,047	2,732	16,779
Charge for the period from 15 February 2002	7,941	3,126	11,067
<b>At 30 April 2002</b>	<u>21,988</u>	<u>5,858</u>	<u>27,846</u>
<b>Net Book Value At 30 April 2002</b>	<u>105,085</u>	<u>44,142</u>	<u>149,227</u>

#### Hire purchase agreements

Included within the net book value of £149,227 is £61,563 relating to assets held under hire purchase agreements. The depreciation charged to the accounts in the period in respect of such assets amounted to £5,937.

#### 6.5 Debtors

	<b>30 April 2002 £</b>
Trade debtors	536,539
Other debtors	338
Prepayments and accrued income	12,477
	<u>549,354</u>

#### 6.6 Creditors: amounts falling due within one year

	<b>30 April 2002 £</b>
Debenture loans	100,000
Trade creditors	113,078
Obligations under HP and finance leases	22,500
Other taxes and social security	89,533
Amounts owed to connected companies	95,855
Directors loans	194,471
Accruals and deferred income	13,009
	<u>628,446</u>

The debenture loans and directors loans will be repayable at the earliest opportunity subject to the general cash flow requirements of the business. Interest on the loans is charged at the National Westminster Bank plc base rate plus 5 per cent.

## 6.7 Creditors: amounts falling due after more than one year

	<b>30 April 2002</b>
	<b>£</b>
Obligations under HP and finance leases	35,208
Loan notes	601,714
	<u>636,922</u>

	<b>Amounts falling due</b>			<b>Total</b>
	<b>1-2 years</b>	<b>2-5 years</b>	<b>Over 5 years</b>	
Obligations under HP and finance leases	22,500	13,708	–	35,208
Loan notes	446,042	155,672	–	601,714
	<u>636,922</u>	<u>636,922</u>	<u>636,922</u>	<u>636,922</u>

No interest is to be charged on these loan notes provided they are repaid within the timescale noted above.

Obligations under HP and finance leases are secured on the assets concerned.

## 6.8 Commitments under operating leases

At 30 April 2002 Debt Free Direct had annual commitments under non-cancellable operating leases as set out below.

	<b>30 April 2002</b>	
	<b>Land &amp; Buildings £</b>	<b>Other Items £</b>
Operating leases which expire:		
Within 1 year	–	1,055
Within 2 to 5 years	25,250*	21,606
	<u>25,250</u>	<u>22,661</u>

\* The amount included in respect of land and buildings is based upon a draft lease agreement which the company is committed to undertaking.

## 6.9 Related party transactions

On 15 February 2002 Debt Free Direct acquired the 'IVA' Business of Lathams Chartered Accountants, a partnership in which the directors of Debt Free Direct have an interest. The assets acquired at fair value are as disclosed in note 6.13.

Since 15 February 2002 Debt Free Direct has transacted with Tenon Group plc, a company in which the directors are interested. The transactions with Tenon Group plc cover payment of wages and salaries on behalf of Debt Free Direct for the months of February and March 2002. From April 2002 onwards Tenon Group plc have provided payroll services to Debt Free Direct. Details of these transactions and the balance owed to Tenon Group plc at 30 April 2002 are as follows:

Payroll costs for February and March 2002 – £106,547

Balance owed to Tenon Group plc as at 30 April 2002 – £64,033

Since 15 February 2002 Debt Free Direct has transacted with DFD (Realisations) Limited (formerly Debt Free Direct Limited), a company in which the directors have an interest.

The transactions with DFD (Realisations) Limited and the balance owed to them by Debt Free Direct as at 30 April 2002 are as follows:

Management charges – £289,056

Balance owed to DFD (Realisations) Limited as at 30 April 2002 – £95,855

At as 30 April 2002 there were a number of debentures, loans and loan notes due to directors, partners of Lathams Chartered Accountants and /or partners of Tenon Group plc. Details of amounts owed by Debt Free Direct as at 30 April 2002 are as follows:

*Debentures*

A Redmond £33,333

J A Reynard £33,334

P A Latham £33,333

*Loan Accounts*

A Redmond £54,452 (Director)

J A Reynard £54,452 (Director)

P A Latham £54,452 (Director)

K Seeley £31,115 (Partner in Lathams)

Name	Loan Notes			Total £
	A Loan Notes £	B Loan Notes £	D Loan Notes £	
P Nuttall	84,948	–	–	84,948
F M Cochrane	84,948	–	–	84,948
K Seeley	105,507	7,757	–	113,264
M Kirby	84,948	–	–	84,948
J A Reynard	28,564	40,608	8,697	77,869
A Redmond	28,563	40,608	8,697	77,868
P A Latham	28,564	40,608	8,697	77,869
	<u>446,042</u>	<u>129,581</u>	<u>26,091</u>	<u>601,714</u>

The loans notes will be repayable during the years ending 30 April 2004, 30 April 2005 and 30 April 2007 as follows:

- £446,042 ‘A’ loan notes will be repayable on or before 28 February 2004
- £129,581 ‘B’ loan notes will be repayable on or before 31 January 2005
- £26,091 ‘D’ loan notes will be repayable on or before 31 January 2007

## 6.10 Share capital

### Authorised share capital:

	<b>30 April 2002</b>
	<b>£</b>
75,800 Ordinary shares of £0.01 each	758
300,000 'A' Preference Shares of £0.0001 each	30
610,000 'B' Preference Shares of £0.0001 each	61
740,000 'C' Preference Shares of £0.0001 each	74
710,000 'D' Preference Shares of £0.0001 each	71
100 'A' Deferred Shares of £0.01 each	1
5 'B' Deferred Shares of £1 each	5
	<hr/>
	1,000
	<hr/> <hr/>

### Allotted, called up and fully paid:

	<b>No.</b>	<b>£</b>
Ordinary shares of £0.01 each	10,000	100.00
'A' Preference Shares of £0.0001 each	285,645	28.56
'B' Preference Shares of £0.0001 each	602,107	60.21
'C' Preference Shares of £0.0001 each	731,687	73.17
'D' Preference Shares of £0.0001 each	705,594	70.56
'A' Deferred Shares of £0.01 each	100	1.00
'B' Deferred Shares of £1 each	5	5.00
	<hr/>	<hr/>
	2,335,138	338.50
	<hr/> <hr/>	<hr/> <hr/>

On 15 February 2002 the authorised share capital of Debt Free Direct was restructured to introduce a number of types of preference shares as listed below

- (i) 30 Ordinary Shares of £1 each were subdivided and reclassified into 300,000 'A' Preference Shares of 0.01 pence each
- (ii) 61 Ordinary Shares of £1 each were subdivided and reclassified into 610,000 'B' Preference Shares of 0.01 pence each
- (iii) 74 Ordinary Shares of £1 each were subdivided and reclassified into 740,000 'C' Preference Shares of 0.01 pence each
- (iv) 71 Ordinary Shares of £1 each were subdivided and reclassified into 710,000 'D' Preference Shares of 0.01 pence each
- (v) 1 Ordinary Share of £1 each was subdivided and reclassified into 100 'A' Deferred Shares of £0.01 each
- (vi) 5 Ordinary Shares of £1 each were subdivided and reclassified into 5 'B' Deferred Shares of £1 each
- (vii) 758 Ordinary Shares of £1 each were subdivided into 75,800 Ordinary Shares of £0.01 each

On 15 February 2002 the following shares were allotted or were agreed to be allotted.

- (i) 285,645 'A' Preference Shares of 0.01 pence each
- (ii) 602,107 'B' Preference Shares of 0.01 pence each
- (iii) 731,687 'C' Preference Shares of 0.01 pence each
- (iv) 705,594 'D' Preference Shares of 0.01 pence each

- (v) 100 'A' Deferred Shares of £0.01 each
- (vi) 5 'B' Deferred Shares of £1.00 each
- (vii) 9,900 Ordinary Shares of £0.01 each.

All shares were issued at par value for cash.

The preference shares are redeemable for a premium of £0.9999 per preference share as follows.

- All of the 'A' Preference shares shall be redeemed on or before 28 February 2004
- All of the 'B' Preference shares shall be redeemed on or before 31 January 2005
- All of the 'C' Preference shares shall be redeemed on or before 31 January 2006
- All of the 'D' Preference shares shall be redeemed on or before 31 January 2007

#### 6.11 Other Reserve

	<b>30 April 2002</b>
	<b>£</b>
Reserve for redemption premium	1,866,400

The reserve represents the present value of redemption premiums payable in respect of preference shares.

#### 6.12 Reconciliation of movements in shareholders funds

	<b>Period ended 30 April 2002</b>
	<b>£</b>
Loss for the financial period	(245,097)
New share capital subscribed	339
Present value of redemption premiums on preference shares	1,866,400
Net addition to funds	1,621,642
Closing shareholders' funds	1,621,642

#### 6.13 Notes to the cash flow statement

##### (a) Reconciliation of operating loss to net cash outflow from operating activities

	<b>Period ended 30 April 2002</b>
	<b>£</b>
Operating loss	(242,246)
Amortisation	-
Depreciation	11,067
Decrease in debtors	107,104
Increase in creditors	121,138
<b>Net cash outflow from operating activities</b>	<b>(2,937)</b>

(b) **Reconciliation of net cash flow to movement in net debt**

	£	£
Increase in cash in the period	109,228	
Cash inflow from increase in debt	(292,471)	
Cash outflow from decrease in HP and finance leases	5,139	
	<hr/>	
Change in net debt resulting from cash flows		(178,104)
Loan notes issued on acquisition of IVA business		(601,714)
HP and finance leases acquired with IVA business		(62,847)
		<hr/>
Movement in net debt in period		(842,665)
Net debt at 14 February 2001		–
		<hr/>
Net debt at 30 April 2002		<u>(842,665)</u>

(c) **Analysis of net debt**

	At 14 February 2001 £	Cash flow £	Acquisition £	Other non cash movements £	At 30 April 2002 £
Net cash in hand	–	109,228	–	–	109,228
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Debt:</b>					
Due after 1 year	–	–	–	(601,714)	(601,714)
Due within 1 year	–	(292,471)	–	–	(292,471)
HP and finance leases	–	5,139	(62,847)	–	(57,708)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	–	(287,332)	(62,847)	(601,714)	(951,893)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net debt	–	(178,104)	(62,847)	(601,714)	(842,665)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(d) **Major non-cash transactions**

On 15 February 2002 Debt Free Direct purchased the IVA Business of Lathams Chartered Accountants and the purchase of that business included the issue of shares and loan notes. Further details of this acquisition are set out below.

(e) **Purchase of IVA business**

	£
<b>Net assets acquired</b>	
Tangible fixed assets	129,707
Debtors	656,458
Cash at bank and in hand	102,403
Creditors	(192,337)
Loans and finance leases	(62,847)
	<hr/>
	633,384
Goodwill	2,079,201
	<hr/>
	<u>2,712,585</u>
	<hr/> <hr/>
<b>Satisfied by:</b>	
Loan notes issued	601,714
Cash	244,471
	<hr/>
	846,185
Premium on redeemable preference shares issued (see note 6.3)	1,866,400
	<hr/>
	<u>2,712,585</u>
	<hr/> <hr/>

#### 6.14 Post Balance Sheet Event

In October 2002 the Directors advanced further debenture loans to Debt Free Direct as follows:

A Redmond	£150,000
J A Reynard	£150,000
P A Latham	£150,000

The loans were made on the same terms as existing debenture loans.

On 2 December 2002 the entire issued ordinary share capital of Debt Free Direct was acquired by Debt Free Direct Group plc the consideration for which was the issue of 19,230,807 ordinary shares of 1p each.

Yours faithfully

**Horwath Clark Whitehill**



## PART V – ACCOUNTANTS’ REPORT ON DFD (INVESTMENTS) LIMITED

**HORWATH  
CLARK WHITEHILL**  
*Chartered Accountants*

The Directors  
Debt Free Direct Group plc  
55 St. Thomas’s Road  
Chorley  
Lancashire  
PR7 1JE

A member of Horwath International

Arkwright House  
Parsonage Gardens  
Manchester  
M3 2HP  
www.horwathcw.com

and

The Directors  
W.H. Ireland Limited  
11 St. James’s Square  
Manchester  
M2 6WH



4 December 2002

Dear Sirs

### **DFD (INVESTMENTS) LIMITED – “DFD”**

We report on the financial information set out in paragraphs 2 to 6 below which has been prepared for inclusion in the Prospectus of Debt Free Direct Group plc dated 4 December 2002 (“the Prospectus”) issued in connection with the acquisition by Debt Free Direct Group plc of the whole of the issued ordinary share capital of DFD and the placing and admission of Debt Free Direct Group plc’s shares to trading on the Alternative Investment Market of the London Stock Exchange.

### **1. INTRODUCTION**

DFD was incorporated in England and Wales on 15 October 2002 with company number 4562911 under the name EVER 1932 Limited with an authorised share capital of £1,000 comprising 1,000 ordinary shares of £1 each of which two subscriber shares were issued.

On 19 November 2002 the name of DFD was changed to DFD (Investments) Limited.

On 14 November 2002 the authorised share capital of DFD was subdivided into ordinary shares of 1p and on 3 December 2002 the authorised share capital of DFD was increased to 4,000,000 ordinary shares of 1p each. On admission of Debt Free Direct Group plc’s shares to trading on the Alternative Investment Market, DFD will issue 2,334,966 ordinary shares of 1p each for cash consideration of £226,430.

### **Basis of Preparation of Financial Information**

The financial information set out below is based on the non statutory financial statements which have been prepared by the Directors of DFD for the purpose of this Prospectus and which cover the period 15 October 2002 to 31 October 2002.

As there has been no trading activity nor dividends paid from the date of incorporation to 31 October 2002, a profit and loss account has not been presented.

### **Responsibility**

The financial statements of DFD are the responsibility of the directors of DFD and have been approved by them. The Directors of Debt Free Direct Group plc are responsible for the

contents of the Prospectus in which this report is included. It is our responsibility to compile the financial information set out in this report from the financial statements, to form an opinion on the financial information and 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. 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 DFD’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 set out below gives for the purpose of the Prospectus a true and fair view of the state of affairs of DFD as at 31 October 2002.

**Consent**

We consent to the inclusion in the Prospectus dated 4 December 2002 of this report and accept responsibility for the report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

**2. FINANCIAL INFORMATION ON DFD FOR THE PERIOD**

15 October 2002 to 31 October 2002

**2.1 Balance sheet at 31 October 2002**

	<b>Notes</b>	<b>31 October 2002 £</b>
<b>Current Assets</b>		
Cash		2
		<hr/>
<b>Net assets</b>		2
		<hr/>
<b>Capital and Reserves</b>		
Called up share capital	2.2.2	2
		<hr/>
Shareholder funds		2
		<hr/> <hr/>

**2.2 Notes to the Financial Information**

**2.2.1 Accounting Policies**

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

## 2.2.2 Share Capital

	<b>31 October 2002 £</b>
<b>Authorised Share Capital</b>	
1,000 ordinary shares of £1 each	1,000
<b>Allotted, called up and fully paid</b>	
2 ordinary shares of £1 each	2

On 14 November 2002 the issued and authorised ordinary shares of £1 each were subdivided into ordinary shares of 1p each and on 3 December 2002 the authorised share capital was increased to 4,000,000 ordinary shares of 1p each.

Upon admission of Debt Free Direct Group plc's shares to trading on the Alternative Investment Market, DFD will issue 2,334,966 ordinary shares of 1p each for an aggregate consideration of £226,430.

Yours faithfully

**Horwath Clark Whitehill**

## PART VI – ILLUSTRATIVE PRO FORMA STATEMENT OF COMBINED NET ASSETS

Set out below is an unaudited pro forma statement of the combined net assets of the Group following the acquisition by Debt Free Direct Group plc of the whole of the issued ordinary share capital of Debt Free Direct Limited and DFD (Investments) Limited and the issue of shares by Debt Free Direct Group plc to be listed on the Alternative Investment Market. The pro forma statement of combined net assets has been prepared on the basis of the notes set out below.

This pro forma statement is provided for illustration purposes and because of its nature cannot give a complete picture of the final position of the Group.

	<b>Debt Free Direct Group plc 31 October 2002 £000</b>	<b>Debt Free Direct Limited 30 April 2002 £000</b>	<b>DFD (Investments) Limited 31 October 2002 £000</b>	<b>Adjustments £000</b>	<b>Pro forma £000</b>
<b>Fixed Assets</b>					
Intangible	–	2,079	–	6,071	8,150
Tangible	–	149	–	–	149
	–	2,228	–	6,071	8,299
<b>Current Assets</b>					
Debtors	–	549	–	–	549
Cash at bank	–	109	–	550	659
	–	658	–	550	1,208
<b>Creditors:</b>					
Amounts falling due within one year	–	628	–	100	728
<b>Net current assets and liabilities</b>	–	30	–	450	480
<b>Total assets less current liabilities</b>	–	2,258	–	6,521	8,779
<b>Creditors:</b>					
Amounts falling due after more than one year	–	637	–	–	637
<b>Net Assets</b>	–	1,621	–	6,521	8,142

### Notes

- The net assets of Debt Free Direct Group plc are extracted from the balance sheet as at 31 October 2002 as shown in the accountants report on Debt Free Direct Group plc set out in Part III of this document.
- The net assets of Debt Free Direct Limited are extracted from the balance sheet as at 30 April 2002 as shown in the accountants report on Debt Free Direct Limited set out in Part IV of this document.
- The net assets of DFD (Investments) Limited are extracted from the balance sheet as at 31 October 2002 as shown in the accountants report on DFD (Investments) Limited set out in Part V of this document.
- Intangible assets have been adjusted to reflect the goodwill arising from the acquisition of Debt Free Direct Limited of £6,070,681 representing the excess of the consideration of £7,692,323 in shares over the net assets acquired of £1,621,642.
- Cash at bank has been adjusted to reflect;
  - the proceeds of the issue of shares by DFD (Investments) Limited of £226,430;
  - the estimated net proceeds of the placing of the shares by Debt Free Direct Group plc of £224,070 after deducting estimated cash expenses of £149,500 including VAT;
  - the receipt of £100,000 of debenture loans from the Directors of Debt Free Direct Group plc which are also reflected in current liabilities.
- No adjustments, other than those referred to above, have been made to reflect the trading results of DFD (Investments) Limited since 31 October 2002, Debt Free Direct Group plc since 31 October 2002 or any activities of Debt Free Direct Limited since 30 April 2002.

## PART VII – ADDITIONAL INFORMATION

### 1. Responsibility

The Directors, whose names appear in paragraph 4 below, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with 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.

### 2. The Company

- 2.1 The Company was incorporated in England under the Act and registered in England and Wales on 26 April 2002 with registered number 4425339 as a public limited company under the name YPCS 120 plc. The name of the Company was changed to Debt Free Direct Group plc on 22 May 2002. The liability of the members of the Company is limited.
- 2.2 The registered office and principal place of business of the Company is 55 St Thomas's Road, Chorley, Lancashire PR7 1JH.
- 2.3 The Company's principal objects and activities are to act as a holding company. The objects of the Company are set out in full in clause 4 of the Memorandum of Association of the Company, which is available for inspection at the time and place specified in paragraph 19.8 of this Part VII.
- 2.4 On 3 December 2002 the Company was issued with a certificate to commence trading under section 117 of the Act.

### 3. Share Capital

- 3.1 At the date of its incorporation, the authorised share capital of the Company was £100,000 divided into 100,000 ordinary shares of £1 each of which two subscriber shares were in issue, fully paid.
- 3.2 On 22 May 2002, the subscriber shares were transferred to each of Andrew Redmond and John Anthony Reynard.
- 3.3 By way of resolutions passed on 2 December 2002 it was, *inter alia*, resolved:
  - 3.3.1 to subdivide each of the ordinary shares of £1 each in the capital of the Company whether issued or unissued into 100 ordinary shares of 1p each;
  - 3.3.2 to increase the authorised share capital of the Company from £100,000 to £400,000 by the creation of an additional 4,000,000 ordinary shares of 1p each;
  - 3.3.3 to authorise the directors generally and unconditionally to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £300,000 until the earlier of the conclusion of the annual general meeting of the Company to be held in 2007 or the date five years following the passing of the resolution but so as to enable the Company before that date to make offers or agreements which would or might require relevant securities to be allotted after that date and to enable the directors to allot relevant securities in pursuance of those offers or agreements as if the authority conferred by them had not expired;
  - 3.3.4 to empower the directors until the earlier of the conclusion of the next annual general meeting of the Company or the date 15 months following the passing of the resolution to allot equity securities (as defined in section 94 of the Act) pursuant to the authority referred to in paragraph 3.3.3 above as if section 89(1) of the Act did not apply to any such allotment, the power being limited to the allotment of equity securities:

- (i) in connection with the Placing;
- (ii) in connection with the acquisition of Debt Free Direct referred to in paragraph 12.5 of this Part VII;
- (iii) in connection with the share for share exchange agreement referred to in paragraph 3.6 below and paragraph 12.11 of Part VII in relation to the Acquisition;
- (iv) under the warrants referred to in paragraphs 12.13 and 12.16 of this Part VII;
- (v) in connection with a rights issue in favour of or a general offer to ordinary shareholders where the equity securities respectively attributable to the interest of all the ordinary shareholders are proportionate (as nearly as may be) to the number of ordinary shares held by them (but subject to such exclusions and other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements and any legal or practical difficulties under the laws of any overseas territory or the requirements of any regulatory body or stock exchange); and
- (vi) (otherwise pursuant to paragraphs (i) to (v) above) up to an aggregate nominal amount of £22,500, being approximately 10 per cent. of the Company's issued share capital as enlarged by the Placing and Acquisition; and

3.3.5 to adopt new Articles of Association of the Company, a summary of which is set out in paragraph 11 of this Part VII.

- 3.4 On 2 December 2002, the Company issued 19,230,807 Ordinary Shares credited as fully paid up in consideration for the acquisition of the entire issued ordinary share capital of Debt Free Direct pursuant to the terms of the share exchange agreement referred to in paragraph 12.5 of this Part VII.
- 3.5 The Company is placing up to 933,927 Ordinary Shares at 40p per share under the Placing. The Company is also, conditional on Admission, issuing warrants entitling W.H. Ireland to subscribe in cash for up to 100,000 Ordinary Shares at 40p per share as set out in paragraph 12.13 of this Part VII and warrants entitling Grenville John Folwell to subscribe in cash for up to 150,000 Ordinary Shares at 10p per share as set out in paragraph 6.1 of this Part VII.
- 3.6 The Company has agreed to issue and allot, conditional on Admission, 2,335,066 Ordinary Shares in consideration for the Acquisition pursuant to the terms of the share exchange agreement referred to in paragraph 12.11 of this Part VII.
- 3.7 Save as referred to in this paragraph 3 and paragraph 6 of this Part VII no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.
- 3.8 The table below sets out the authorised, issued and fully paid ordinary share capital of the Company as at 3 December 2002, being the latest practicable date before the publication of this document:

<b>Authorised</b>			<b>Issued and fully paid</b>	
<b>£</b>	<b>Number</b>		<b>£</b>	<b>Number</b>
400,000	40,000,000	Ordinary Shares of 1p each	192,310.07	19,231,007

3.9 The table below sets out the authorised, issued and fully paid ordinary share capital of the Company as it will be immediately following the Acquisition, Placing and Admission\*:

<b>Authorised</b>			<b>Issued and fully paid</b>	
<b>£</b>	<b>Number</b>		<b>£</b>	<b>Number</b>
400,000	40,000,000	Ordinary Shares of 1p each	225,000	22,500,000

\* assuming subscription in full

#### 4. Directors

4.1 Other than a directorship of the Company, Debt Free Direct or DFD , the current directorships and partnerships of the Directors and directorships and partnerships held by them over the previous five years are as follows:

<b>Name</b>	<b>Age</b>	<b>Function</b>	<b>Directorships and Partnerships</b>
Grenville John Folwell	59	Non-Executive Chairman	<p><i>Current:</i> Public Private Partnerships Programme Limited Institute of Public Finance Limited Partnerships UK Plc Preferred Holdings Limited Software Solutions Partners Limited Halifax International Limited (Jersey) Banco Halifax Hispania SA HBOS Insurance (PCC) Guernsey Ltd</p> <p><i>Previous:</i> Country Wide Property Investments Ltd HBOS Insurance and Investment Group Ltd Halifax Loans Limited Uberior Infrastructure Investments (NO2) Ltd Halifax Mortgage Services (Holdings) Ltd Halifax PLC Halifax Group PLC HSDL Nominees Limited Halifax Share Dealing Limited Halifax Nominees Limited Broadfold Hall Limited The National Solicitors Network Limited Halifax Premises Limited Chain Mender Limited</p>
Andrew Redmond	40	Chief Executive Officer	<p><i>Current:</i> L. Redmond (Services) Limited L.C. (Estates &amp; Finance) Limited L.C. Properties (Northern) Limited</p> <p><i>Previous:</i> Longton Finance Limited Darth Limited Lathams, Chartered Accountants</p>

<b>Name</b>	<b>Age</b>	<b>Function</b>	<b>Directorships and Partnerships</b>
John Anthony Reynard	43	Finance Director	<p><i>Current:</i> None</p> <p><i>Previous:</i> Frenkel Topping Limited Lathams Financial Management Limited Lathams, Chartered Accountants</p>
Paul Alan Latham	44	Executive Director	<p><i>Current:</i> Non-Audit 1497 Limited</p> <p><i>Previous:</i> Darth Limited Lathams, Chartered Accountants</p>
Ian William Currie	41	Non-executive Director	<p><i>Current:</i> AMSA Properties Limited Altium Capital Limited Burnden Leisure plc The Bolton Wanderers Football &amp; Athletic Company Limited Greatstride Limited Zeus Capital Holdings Limited Currie Capital Limited Zeus Partners</p> <p><i>Previous:</i> Sama Securities Limited (dissolved)</p>

The business address of each of the Directors is 55 St Thomas's Road, Chorley, Lancashire PR7 1JH.

- 4.2 Ian Currie was a non-executive director of Glenmore Designs Limited from June 1988 to February 1989. This company was placed into receivership in October 1989. In May 1997 Mr Currie was a non-executive director of Prospect Industries plc which was placed into receivership in September 1997.
- 4.3 Save as disclosed in this document, as at the date of this document, none of the Directors has:
- 4.3.1 any unspent convictions in relation to indictable offences; or
  - 4.3.2 been declared bankrupt or made any individual voluntary arrangement; or
  - 4.3.3 been a director of a company at the time of or within the twelve months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors; or
  - 4.3.4 been a partner of any partnership at the time of or within the twelve months preceding the partnership being subject to a compulsory liquidation, administration or partnership voluntary arrangement; or
  - 4.3.5 had any asset subject to receivership or been a partner of any partnership at the time of or within the twelve months preceding any such asset being subject to a receivership; or



4.3.6 been subject to any public criticism by statutory or regulatory authorities, nor disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## 5. Directors' and Other Interests

5.1 The interests of the Directors and the persons connected with them (within the meaning of Section 346 of the Act) in the issued ordinary share capital of the Company as at 3 December 2002, the latest practicable date prior to the publication of this document, as notified to the Company pursuant to section 324 or 328 of the Act, as they appear or will appear in the register of directors' interests required pursuant to section 325 of the Act are as follows:

	<b>Number of Ordinary Shares</b>	<b>Percentage of issued Ordinary Share capital</b>	<b>Number of Ordinary Shares exercisable under warrants</b>	<b>Number of Ordinary Shares immediately following Placing, Acquisition and Admission</b>	<b>Percentage of issued Ordinary Share capital immediately following Placing, Acquisition and Admission*</b>
Grenville John Folwell	–	–	150,000**	–	–
Andrew Redmond	5,015,447	26.08	–	5,015,447	22.29
John Anthony Reynard	5,015,447	26.08	–	5,015,447	22.29
Paul Alan Latham	5,015,447	26.08	–	5,015,447	22.29
Ian William Currie	–	–	–	160,156	0.71

\*assuming subscription in full

\*\*to be issued on Admission

5.2 Save as disclosed above, as at 3 December 2002, the Directors are not aware of any interests of persons connected with them which would, if such connected person were a director, be required to be notified to the Company pursuant to section 324 or section 328 of the Act and would be required to be entered in the register of directors' interests pursuant to section 325 of the Act.

5.3 As at 3 December 2002, the latest practicable date prior to the publication of this document, the Company is not aware of any person, other than the Directors and their immediate families as disclosed in paragraph 5.1 above, who is interested (within the meaning given to that expression in Part VI of the Act), directly, or indirectly, in three per cent. or more of the share capital (as defined in section 198(2) of the Act) of the Company or who directly or indirectly jointly or severally exercise or could exercise control over the Company, other than those set out below:

	<b>Number of Ordinary Shares</b>	<b>Percentage of issued Ordinary Share capital</b>	<b>Percentage of issued Ordinary Share capital immediately following Placing and Admission*</b>
Keith Seeley	2,867,344	14.91%	12.74
Derek John Oakley	1,317,324	6.85%	5.85

\*assuming subscription in full

Pursuant to the Acquisition, Peter Byrne and his family trusts ("PB") have entered into a share exchange agreement to acquire in aggregate 618,753 Ordinary Shares. Assuming completion of the Acquisition and subscription in full (including PB's proposed subscription for 225,000 Ordinary Shares in the Placing) PB's holding would equate to

3.75% of the issued ordinary share capital of the Company immediately following the Placing and Admission.

- 5.4 Each of the Executive Directors holds loan notes issued by Debt Free Direct in part consideration for the acquisition of the IVA Business (referred to at paragraph 12.1 below), details of which are as follows:

	<b>A Loan Notes £</b>	<b>B Loan Notes £</b>	<b>C Loan Notes £</b>	<b>Total £</b>
Andrew Redmond	28,563	40,608	8,697	77,868
John Anthony Reynard	28,564	40,608	8,697	77,869
Paul Alan Latham	28,564	40,608	8,697	77,869

Further details of the loan notes are set out in paragraph 12.2 of this Part VII and on page 12 of this document.

- 5.5 Each of the Executive Directors has lent Debt Free Direct funds secured by way of debenture over the assets and undertaking of Debt Free Direct details of which are as follows:

	<b>£550,000 loan secured by debenture £</b>	<b>£194,471 loan secured by debenture £</b>
Andrew Redmond	183,333.33	54,452
John Anthony Reynard	183,333.33	54,452
Paul Alan Latham	183,333.33	54,452

The balance of the £194,471 loan (being £31,115) was provided by Keith Seeley, a shareholder in Debt Free Direct.

These loans bear interest at an accrued rate of 5 per cent. above the National Westminster Bank plc base rate and are repayable on written demand by the lenders. It is intended that part of the Placing proceeds be used to reduce the aggregate amount of the directors' loans referred to in this paragraph 5.5 and paragraph 5.6 below by £350,000.

- 5.6 Each of the Executive Directors has entered into an agreement to lend the Company in equal proportions the aggregate sum of £100,000 plus the amount (if any) by which the gross proceeds of the Placing fall short of £373,570 (such loan not exceeding £450,000 in total). The loan is to be secured by way of a debenture over the assets and undertaking of the Company. The loan bears interest at an accrued rate of 6 per cent. above the National Westminster Bank plc base rate and is repayable on written demand by the lenders.
- 5.7 Further, each of the Executive Directors holds 'A' deferred shares of 1p each and 'D' preference shares of 0.01p each in the capital of Debt Free Direct as follows:

	<b>'A' Deferred Shares</b>	<b>'D' Preference Shares</b>
Andrew Redmond	11	55,672
John Anthony Reynard	11	55,672
Paul Alan Latham	11	55,672

The 'A' deferred shares carry the rights as set out at paragraphs 12.3 to 12.5 of this Part VII and the 'D' preference shares carry the rights set out on page 12 of this document and paragraphs 12.3 and 12.6 of this Part VII.

- 5.8 Save as disclosed in this document, none of the Directors has any interest, beneficial or non-beneficial, in the share or loan capital of the Company.

- 5.9 Save as disclosed in this document, no Director has any interest, direct or indirect, in any assets which have been or are proposed to be acquired or disposed of by, or leased to or by, the Group and no contract or arrangement exists in which a Director is materially interested and which is significant in relation to the business of the Group.
- 5.10 There are no outstanding loans granted by the Company to any of the Directors, nor are there any guarantees provided by the Company for their benefit.
- 5.11 The Directors have each undertaken not to dispose of any interest in the shares of the Company, for a period of two years from the date of Admission as referred to in Part I of this document.

## **6. Arrangements with Directors**

- 6.1 Grenville John Folwell has entered into a letter of appointment with the Company (which will terminate without liability on the part of the Company if Admission does not occur by 31 January 2003) in respect of his services as non-executive Chairman of the Company. The appointment is for an initial term of 12 months. Under the letter of appointment, Grenville John Folwell is entitled to an annual fee of £25,000 (increasing to £30,000 with effect from the first anniversary of Admission should the appointment be renewed after the initial term), reimbursement of reasonable expenses and no other remuneration. The Company will, following Admission, issue warrants to Grenville John Folwell entitling him to subscribe in cash for up to 150,000 Ordinary Shares at a price of 10p per Ordinary Share. Such warrants are exercisable at any time up to the third anniversary of the date of Admission.
- 6.2 The services of Andrew Redmond, John Anthony Reynard and Paul Alan Latham are provided by way of an agreement with Tenon Limited (“Tenon”) (“the “Appointment”). Pursuant to the Appointment, the Executive Directors, whilst remaining as employees of Tenon, are to act as Executive Directors of the Company, conditional upon Admission. Andrew Redmond is required to provide two days per week service and Paul Alan Latham and John Anthony Reynard are to provide such time as may be necessary for the proper discharge of their duties provided that this shall not amount to more than one half day each week. Tenon is entitled to an initial annual fee of £58,000. The Appointment is for an initial period of six months and may be terminated in respect of each Executive Director by either Tenon or the Company giving three months prior notice in writing.
- 6.3 Zeus Partners has entered into a letter of appointment with the Company (which will terminate without liability on the part of the Company if Admission does not occur by 31 January 2003) in respect of the services of Ian William Currie. The appointment is for an initial term of 12 months. Under the letter of appointment, Zeus Partners is entitled to an annual fee of £15,000 plus VAT, reimbursement of reasonable expenses and no other remuneration.
- 6.4 The aggregate remuneration paid (and benefits in kind to be granted) to the Directors by the Company in the financial year ending 30 April 2002 was nil. In the current financial year, the aggregate remuneration payable (and benefits in kind to be granted) to the Directors by the Company under the arrangements in force at the date of this document is estimated to be £16,700 (plus VAT). In addition, Tenon will be entitled to receive a fee of £24,167 in the current financial year in respect of the Appointment referred to at paragraph 6.2 above.
- 6.5 All of the above contracts either expire or are terminable without payment of compensation on no more than 12 months’ notice.

## **7. Subsidiaries**

- 7.1 The Company currently has one wholly owned subsidiary, Debt Free Direct. Following completion of the Acquisition, the Company will have an additional wholly owned subsidiary, DFD. Details of each of Debt Free Direct and DFD immediately following Admission are summarised below:

### 7.1.1 *Debt Free Direct*

Full name:	Debt Free Direct Limited
Previous names:	Ever 1502 Limited and Lativa Limited
Date of incorporation:	14 February 2001
Registered number:	4160038
Authorised share capital:	£1,000 divided into: 300,000 A preference shares of 0.01p each, 610,000 B preference shares of 0.01p each, 740,000 C preference shares of 0.01p each, 710,000 D preference shares of 0.01p each, 100 A deferred shares of 1p each, 5 B deferred shares of £1 each and 750,800 ordinary shares of 1p each. The terms of the preference shares are summarised in Part I (page 12) and referred to at paragraphs 12.3 and 12.6 of this Part VII, while the terms of the deferred shares are summarised in paragraphs 12.3 to 12.5 of this Part VII.
Issued share capital:	285,645 A preference shares of 0.01p each, 602,107 B preference shares of 0.01p each, 731,687 C preference shares of 0.01p each, 705,594 D preference shares of 0.01p each, 100 A deferred shares of 1p each, 5 B deferred shares of £1 each and 10,000 ordinary shares of 1p each.
Shareholders:	Ordinary Shareholder: the Company*. Preference Shareholders: Michael Harry Reeves, Derek Oakley, Robert Spencer Parry, Anthony Atkinson, Jane Cressida Partington, John Daly, Philip Nuttall, Francis Michael Cochrane, Martin Andrew Kirby, Andrew Simon Glassbrook, Keith Seeley, Paul Alan Latham, John Anthony Reynard, Andrew Redmond.  'A' Deferred Shareholders: Michael Harry Reeves, Derek Oakley, Robert Spencer Parry, Anthony Atkinson, Jane Cressida Partington, John Daly, Philip Nuttall, Francis Michael Cochrane, Martin Andrew Kirby, Keith Seeley, Paul Alan Latham, John Anthony Reynard, Andrew Redmond.  'B' Deferred Shareholders: Michael Harry Reeves, Robert Spencer Parry, Anthony Atkinson, Jane Cressida Partington, John Daly.
Directors:	Andrew Redmond, John Anthony Reynard and Paul Alan Latham.
Company Secretary:	John Anthony Reynard

\*The Company completed the acquisition of Debt Free Direct on 2 December 2002. As at the date of this document the stock transfer forms in relation to this acquisition had not been stamped and accordingly the name of the Company has not yet been entered into the register of members of Debt Free Direct as the sole ordinary shareholder thereof. The transferors of the ordinary shares of Debt Free Direct have each executed irrevocable powers of attorney in favour of the Company granting to it the power to enjoy all rights attaching to the ordinary shares of Debt Free Direct.

### 7.1.2 **DFD**

Full name:	DFD (Investments) Limited
Date of incorporation:	13 October 2000
Registered number:	4562911
Authorised share capital:	£40,000 divided into 4,000,000 ordinary shares of 1p each
Issued share capital:	2,335,066 ordinary shares of 1p each
Sole Shareholder:	the Company **
Directors:	Andrew Redmond and John Anthony Reynard
Company Secretary:	John Anthony Reynard

\*\* The Company will be registered as the legal holder of the entire issued ordinary share capital of DFD once the stock transfer forms in relation to the same have been duly stamped. The DFD Shareholders have each executed irrevocable powers of attorney in favour of the Company granting to it the power to enjoy all rights attaching to the issued ordinary share capital of DFD which will become effective upon Admission.

## **8. Accounting**

The Company's accounting reference date is the end of April each year. The Company's next accounting reference period will end on 30 April 2003.

## **9. Registered Office and Premises**

- 9.1 The registered office for the Company and Debt Free Direct is 55 St Thomas's Road, Chorley, Lancashire PR7 1JH. The registered office for DFD will be changed to this address immediately following completion of the Acquisition.
- 9.2 Debt Free Direct operates from premises at 53 and 55 St Thomas's Road, Chorley, Lancashire PR7 1JH under a licence to occupy from Andrew John Duckworth and Neil Gregory Duckworth. A proposed lease is currently being negotiated.

## **10. Taxation**

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 Ordinary 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) and assuming that the Company remains a trading company or the holding company of a trading group for UK tax purposes, the Ordinary Shares should continue to be treated as unquoted securities qualifying for certain reliefs from UK taxation.

**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.**

### **10.1 Taxation of Dividends**

- 10.1.1 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.
- 10.1.2 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 rate (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.

- 10.1.3 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. Over a transitional period to 2003/04, charities (but not individuals) will be able to claim a compensatory payment calculated as a percentage payment of their dividend income.
- 10.1.4 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.
- 10.1.5 A UK pension fund, as defined in Section 231A Income and Corporation Taxes 1988, is restricted from claiming a repayment of the tax credit.
- 10.1.6 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 payment of all or part of the tax credits carried by the dividends they receive from UK companies. 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.

## 10.2 Stamp Duty and Stamp Duty Reserve Tax

Transfers on sales of Ordinary Shares will be subject to ad valorem stamp duty (payable by the purchaser and generally at the rate of 0.5 per cent. 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 SDRT (payable by the purchaser and generally at that rate). 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.

## 11. Articles of Association

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

### 11.1 Rights attaching to the Ordinary Shares

#### 11.1.1 Voting

Subject to any special terms as to voting upon which any shares may be issued, or may for the time being be held, every member present in person or by proxy at any general meeting shall, upon a show of hands, have one vote and every member

present in person or by proxy shall, upon a poll, have one vote for each share held by him. Unless the Board otherwise determines, voting rights may not be exercised by a member who has not paid to the Company all calls and other sums then payable by him in respect of shares in the Company, or by a member who has been served with a disenfranchisement notice after failure to provide the Company with information which he is required to provide to it under any relevant legislation.

Where there are joint holders of a share, any one of them may vote at any meeting either personally or by proxy in respect of the share as if he were solely entitled to it, but if more than one joint holder is present at a meeting either personally or by proxy, that one of them whose name stands first in the register of members in respect of the share shall alone be entitled to vote in respect of it.

#### 11.1.2 *Dividends*

Subject to the Act and any special rights attaching to shares (of which there are none at present) the holders of the Ordinary Shares are entitled, proportionately amongst themselves, to the profits of the Company available for distribution and resolved by ordinary resolution to be distributed (up to the amount recommended by the directors) according to the amounts paid up on the Ordinary Shares held by them. The directors may pay interim dividends if profits are available for distribution. No dividends payable in respect of an Ordinary Share shall bear interest. The directors may, if authorised by an ordinary resolution, offer the holders of Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid (or other specific assets) instead of cash in respect of all or part of a dividend (“a scrip dividend”). The directors may, pursuant to the provisions of the Articles relating to disclosure of interests, withhold dividends or other sums payable in respect of shares which are the subject of a notice under section 212 of the Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class and in respect of which the required information has not been received by the Company within 14 days of that notice and the member holding those shares may not elect, in the case of a scrip dividend, to receive shares (or other specific assets) instead of that dividend.

The Company or its directors may fix a date as the record date for a dividend. A dividend unclaimed after a period of 12 years from the date when it became due for payment shall, unless the directors otherwise resolve, be forfeited and shall revert to the Company.

#### 11.1.3 *Return of Capital*

On a winding-up, subject to any special rights attaching to shares (of which there are none at present), the assets available for distribution shall be divided among the members in proportion to the amounts of capital paid up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary, under supervision or by the court) the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by law, divide among the members in specie or kind the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the same sanction, vest the whole or any part of the whole of the assets in trustees on trusts for the benefit of the members as he with the same sanction thinks fit, but no member shall be compelled to accept any shares or other securities on which there is a liability.

#### 11.1.4 *Allotment, Redemption and Pre-emption*

Subject to the provisions of the Act regarding pre-emption rights and any resolution

of the Company relating thereto or to any authority to allot relevant securities, the whole of the shares of the Company for the time being unissued are under the control of the directors who may generally allot (with or without conferring a right of renunciation) grant options over or otherwise dispose of the same to such persons and on such terms and conditions either at a premium or at par and at such times as directors think fit and with full power to give to any person the call of any shares, either at par or at a premium during such time at such consideration as the directors think fit.

The Company may by special resolution create and sanction the issue of shares which are, or at the option of the Company or the holder are to be liable, to be redeemed, subject to and in accordance with the provisions of any relevant legislation.

There are no pre-emption rights on transfer attaching to the shares in the capital of the Company.

#### 11.1.5 *Alteration of share capital*

The Company may by ordinary resolution increase, consolidate or sub-divide its share capital or cancel any shares which have not, at the date of the ordinary resolution, been taken or agreed to be taken by any person and, subject to the Act, diminish the amount of its capital by the nominal amount of shares so cancelled. The Company may (subject to any conditions and consents required by law) by special resolution reduce its share capital or any capital redemption reserve fund or share premium account in any manner.

#### 11.1.6 *Purchase of Own Shares*

The Company may purchase its own shares (including any redeemable shares) in accordance with the Articles and the Act.

### 11.2 **Directors**

#### 11.2.1 *Directors' Remuneration*

The remuneration of the directors for their services as directors shall be determined by the board. In addition, the directors are entitled to be reimbursed for all reasonable expenses incurred in connection with their duties as directors, including attendance at board meetings and general meetings of the Company.

A director may be appointed by the board to any employment or executive office with the Company for such period (subject to the provisions of any relevant legislation) on such terms and at such remuneration as the board may determine.

#### 11.2.2 *Retirement of Directors by Rotation*

At every annual general meeting of the Company, one-third of the directors (or, if their number is not three or a multiple of three, the number nearest to but not more than one-third) shall retire from office by rotation.

The directors to retire by rotation shall include a director who wishes to retire and not offer himself for re-election. The further directors to retire shall be those of the other directors who have been longest in office since their appointment or last reappointment but, as between persons who became or were reappointed directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

The directors to retire shall be determined (both as to number and identity) by the composition of the board at the date of the notice convening the annual general meeting. A director shall not be required, or be relieved from the obligation, to retire



by reason of a change in the board after that time but before the close of the meeting.

At the meeting at which a director retires by rotation, the Company may fill the vacated office. A director who retires at an annual general meeting may, if willing to act, be reappointed. If he is not reappointed, he shall retain office until the meeting appoints someone in his place or, if it does not do so, until the end of the meeting.

### 11.2.3 *Executive Directors*

The directors may appoint a director to an executive office in the Company on such terms as the directors determine.

The appointment of a director to an executive office terminates if he ceases to be a director, but without prejudice to any claim he has for breach of his contract of employment or service.

### 11.2.4 *Directors' Interests*

A director shall not vote nor be counted in a quorum at a meeting in relation to any resolution of the board concerning any contract, arrangement or other proposal in which he is, to his knowledge, directly or indirectly, materially interested.

The prohibition will not apply to the following:

- (a) an arrangement for giving a guarantee, security or indemnity to him in respect of money lent or obligations undertaken by him for the benefit of the Company (or any of its subsidiaries) or in respect of a debt or obligation of the Company (or any of its subsidiaries) for which he has assumed responsibility, in whole or in part, under a guarantee or an indemnity or by the giving of security;
- (b) a proposal concerning an offer of securities by the Company (or any of its subsidiary undertakings) 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;
- (c) a proposal concerning another company in which he is not interested, directly or indirectly, in 1 per cent, or more either of any class of its equity share capital or of its voting rights;
- (d) certain arrangements for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award the director a privilege or benefit not awarded to the employees to whom the arrangement relates; or
- (e) a proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of directors or for the benefit of persons who include directors.

Subject to the statutes and provided he has disclosed to the directors the nature and extent of his interest, a director may contract with the Company and the contract shall not be avoided on the grounds of his interest or benefit and the director is not liable to account to the Company for any profit realised as a result of the contract.

A director may not vote or be counted in the quorum in relation to a resolution of the directors or committee of the directors concerning his own appointment, including the arrangement or variation of the terms or the termination of his own appointment or the appointment of another person to an office in a company in which the director has a material interest.

Where proposals are under consideration concerning the appointment, including the arrangement or variation of the terms or the termination of the appointment of two or more directors, a separate resolution may be put in relation to each director. In each case,

each director (if not otherwise debarred from voting) is entitled to vote in respect of each resolution except that concerning his own appointment.

### **11.3 Transfer of Shares**

Any shares in the Company may be held in uncertificated form and title to shares may be transferred by means of a relevant system. The following provisions apply to uncertificated shares as if the reference therein to the date on which the transfer was lodged with the Company was reference to the date on which the appropriate instruction was received by or on behalf of the Company in accordance with the facilities and requirements of the relevant system.

The instrument of transfer of a share shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid, by or on behalf of the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof. All transfers shall be effected by instrument in writing in the usual common form or any other form which the directors may approve. The directors may, in their absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid. The directors may likewise refuse to register any transfer in favour of more than four persons jointly. The directors may decline to recognise any instrument of transfer unless it is lodged, duly stamped, with the Company, accompanied by the relevant certificate and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer, and unless the instrument is in respect of only one class of share. The directors may, pursuant to the provisions of the Articles relating to disclosure of interests, refuse to register the transfer of shares which are the subject of a notice under section 212 of the Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class and in respect of which the required information has not been received by the Company within 14 days of that notice. The directors may also refuse to register a transfer of uncertificated shares in such other circumstances as may be permitted or required by the relevant system or The Uncertificated Securities Regulations 2001.

### **11.4 Variation of Rights**

The rights attaching to the shares in the Company may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of the relevant class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class.

### **11.5 Borrowing Powers**

The directors may exercise all the powers of the Company to borrow money, and to mortgage or charge all or any part of its undertaking property and assets (both present and future) including its uncalled capital and, subject to the statutes to issue debentures and other securities; whether outright or as collateral security, for any debt, liability or obligation of the Company or of any third party. The directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries (if any) so as to secure (or, as regards subsidiaries, so far as they can so secure) that the aggregate principal amount (after adjustments provided for in the Articles) at any one time owing by the Company and all its subsidiaries in respect of monies borrowed and owing to persons outside the Group shall not at any time without the previous sanction of the Company in general meeting exceed an amount equal to 4 times the amount paid up or credited as paid up on the issued ordinary share capital of the Company and the amount standing to the credit of the consolidated reserves of the Company and its subsidiaries and including (without limitation) share premium account, capital redemption reserve and credit balance on profit and loss account but after deducting any debit balance on profit and loss account and subject to such adjustments as are specified in the Articles.

## 11.6 Electronic communication

Any requirement for the Company to send, circulate or despatch notices or documents to its members shall be deemed to have been complied with in relation to any member where the company and the members have agreed to use electronic communication to send such notices or documents, where the notices or documents are notices or documents to which the agreement applies and copies of the notices or documents are sent by electronic communication to the address, number or other location notified by the member to the Company for that purpose; or where the Company and the member have agreed to the member having access to notices or documents on a website and the notices or documents to which the agreement applies and the member is notified of the publication of the notices or documents on the website, the address of the website, the place on the website where the notices or documents can be accessed and how they can be accessed and the period of time for which the notices or documents will be available on the website.

The period of time for which the notices or documents must be available on a website must not be less than 21 days from the date of notification or, if later, until the conclusion of any general meeting to which the notices or documents relate. If the notices or documents are published on the website for a part only of this period of time, they will be treated as being published throughout the period if the failure to publish throughout that period is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

Where the Company sends notices or documents to shareholders by electronic communication, it must also make the notices or documents available to members in printed form and free of charge on request during normal business hours for a period of not less than 21 days from the date of communication or notification or, if later, until the conclusion of any general meeting to which the notices or documents relate. The printed copies must be made available in sufficient numbers to satisfy demand from its members and be made available at the Company's office and also at the offices of any of the Company's paying agents in the United Kingdom.

## 12. Material Contracts

In addition to any contracts disclosed elsewhere in this document, the following contracts (being contracts otherwise than in the ordinary course of business) have been entered into by the Group (including for these purposes DFD) within the two years immediately preceding the date hereof or are relevant to the proposals contained herein and are or may be material:

- 12.1 An agreement dated 15 February 2002 pursuant to the acceptance by Debt Free Direct of an offer made by K Seeley and others (including the Executive Directors) ("the Offerors") under which Debt Free Direct agreed to acquire the business and assets of the individual insolvent voluntary arrangements and personal debt management services business (the "IVA Business") from the partners of Lathams for £846,185. Of this consideration, the sum of £244,471 was satisfied on the date of the agreement, the remainder being satisfied by the issue to certain of the Offerors of the loan notes referred to on page 12 of this document and paragraph 12.2 of this Part VII. Under this agreement, Debt Free Direct agreed to assume all liabilities in respect of the IVA Business in relation to the period following the date of the agreement, together with all undischarged liabilities in respect of the IVA Business from 10 May 2002.
- 12.2 The following loan notes were issued to certain of the Offerors by Debt Free Direct on 15 February 2002 as part of the consideration for the acquisition of the IVA Business referred to at paragraph 12.1 above:
  - (i) £446,042 unsecured series A loan notes 2004 which are to be redeemed by Debt Free Direct at par by 31 January 2004. These loan notes carry interest on any late payment at the rate of 5 per cent. above the base rate of the National Westminster Bank plc;

- (ii) £129,581 unsecured series B loan notes 2005 which are to be redeemed by Debt Free Direct at par by 31 January 2005. These loan notes carry the same rate of interest identified at paragraph 12.2 (i) above;
- (iii) £26,091 unsecured series D loan notes 2007 which are to be redeemed by Debt Free Direct at par by 31 January 2007. These loan notes carry the same rate of interest identified at paragraph 12.2(i) above.

Under the terms of the shareholders' agreement (summarised at paragraph 12.3 below) if Debt Free Direct fails to redeem the loan notes in accordance with their terms in circumstances where Paul Alan Latham, John Anthony Reynard, Keith Seeley and Derek John Oakley (the "Dividend Recipients") have received a dividend from Debt Free Direct or its parent company, then the holders of the loan notes can require the Dividend Recipients to purchase such part of the aggregate amount of the loan notes due for redemption as is equal to the amount of dividend paid to the Dividend Recipients, for an amount equal to the sum due upon such loan notes upon their redemption.

- 12.3 The shareholders agreement dated 15 February 2002 between (1) K Seeley and others (including the Executive Directors) and (2) Debt Free Direct governing the terms under which shares are to be held in Debt Free Direct and how its business is to be carried on. By a deed of adherence dated 2 December 2002, and in accordance with the terms of the shareholders agreement, the Company agreed to adhere to the terms of the shareholders agreement as if it were a party to it. Under the shareholders agreement, Debt Free Direct may not, without the consent of 65 percent of all the preference shareholders of Debt Free Direct, engage in any course of action prejudicial to the preference or deferred shareholders of Debt Free Direct, including, *inter alia*, disposing of all or substantially all of the business and assets of Debt Free Direct or taking steps to wind up Debt Free Direct. Further, the consent of 100 per cent. of the preference shareholders is required to any amendments made to the loan notes (described at paragraph 12.2 above) or repaying certain of the loan notes prior to the repayment of others. No consent is, however, required in relation to Placing or Admission, provided that the Company enters into the agreement referred to at paragraph 12.6 below. The shareholders agreement also states that if Debt Free Direct fails to redeem its preference shares in issue on the date they fall due for redemption in circumstances where the Dividend Recipients (as defined at paragraph 12.2 above) have received a dividend from Debt Free Direct or its parent company, then the holders of the preference shares can require the Dividend Recipients to purchase such part of the aggregate amount of the preference shares as is due for redemption as is equal to the amount of dividend paid to the Dividend Recipients, for an amount equal to the sum due upon such preference shares upon their redemption. The shareholders agreement also contains provisions whereby the 'B' deferred shareholders of Debt Free Direct shall, on the happening of a certain specified event (as defined in the articles of association of Debt Free Direct referred to at paragraph 12.4 below) be entitled to receive (whether by a sale of their deferred shares to Debt Free Direct, the Company or a third party or otherwise) a percentage of the value attributed to such event, up to a maximum amount of £400,000. Rights attributed to the 'A' deferred shares have fallen away.
- 12.4 The articles of association of Debt Free Direct, which, *inter alia*, set out the rights attaching to the shares in that company. For details of rights attaching to the preference shares, see page 12 of Part 1 of this document and paragraph 12.3 of this Part VII. Upon the happening of one of certain specified events, such as the sale or listing of Debt Free Direct or its holding company, before the expiry of three years from the date on which all of the preference shares in Debt Free Direct have been redeemed in full, the holders of the B deferred shares would (in addition to the Company) become entitled to share in the dividends, voting rights and return of capital of Debt Free Direct. Rights attributed to the 'A' deferred shares have fallen away. The provisions of the articles of association are such that the proposed Admission and Placing are not specified events for these purposes (which were included as a form of anti-embarrassment provision in favour of the holders of the 'A'

and 'B' deferred shares) since the proposed Admission and Placing were in contemplation of Debt Free Direct at the time its articles of association were adopted.

- 12.5 Share exchange agreement dated 2 December 2002 between (1) the Company and (2) A Redmond and others under which the Company acquired the entire issued ordinary share capital of Debt Free Direct in consideration for which the Company issued and allotted 19,230,807 Ordinary Shares. Under the share exchange agreement the vendors provided limited warranties to the Company in relation to title and the issued ordinary share capital of Debt Free Direct and agreed to enter into lock-in arrangements in respect of the consideration shares, details of which are summarised on page 14 of Part 1 of this document.
- 12.6 On 2 December 2002, and as required under the terms of the shareholders' agreement described at paragraph 12.3 above, the Company entered into a deed of guarantee and option with the holders of the loan notes issued by and the preference shareholders of Debt Free Direct:
- (i) guaranteeing the repayment of the loan notes referred to at paragraph 12.2 above by Debt Free Direct and the fulfilment of its obligations under the agreement referred to at paragraph 12.1 above; and
  - (ii) granting an option to the preference shareholders of Debt Free Direct entitling such preference shareholders to require the Company to acquire their preference shares either in the period of one month before the shares in question are due to be redeemed by Debt Free Direct or, if earlier, upon the happening of a certain specified event, including the sale or listing of Debt Free Direct, but excluding the proposed Admission and Placing.
- 12.7 Debenture dated 15 February 2002 between Debt Free Direct and each of John Anthony Reynard, Paul Alan Latham and Andrew Redmond. This debenture was granted by Debt Free Direct to secure a £550,000 working capital facility provided to Debt Free Direct by each of John Anthony Reynard, Paul Alan Latham and Andrew Redmond in the proportions detailed at paragraph 5.5 of this Part VII. This debenture is a first ranking, all monies debenture.
- 12.8 Debenture dated 15 February 2002 between Debt Free Direct and each of John Anthony Reynard, Paul Alan Latham, Andrew Redmond and Keith Seeley. This debenture was granted by Debt Free Direct to secure a £194,471 loan provided to Debt Free Direct by each of John Anthony Reynard, Paul Alan Latham, Andrew Redmond and Keith Seeley in the proportions detailed at paragraph 5.5 of section VII above. This debenture is an all monies debenture which, under the deed of priorities (summarised at 12.9 below) is subordinate to the debenture detailed at paragraph 12.7 above.
- 12.9 Deed of priorities made between Debt Free Direct and each of John Anthony Reynard, Paul Alan Latham, Andrew Redmond and Keith Seeley. The deed of priorities sets out the order in which the debentures summarised at paragraphs 12.7 and 12.8 above should be applied. The debenture relating to the £550,000 loan detailed in paragraph 12.7 above ranks in priority to the debenture relating to the £194,471 loan detailed at paragraph 12.8 above.
- 12.10 Agreement to enter into a debenture dated 4 December 2002 between the Company and each of John Anthony Reynard, Paul Alan Latham and Andrew Redmond. This debenture is to be granted by the Company to secure the working capital facility to be provided to the Company by each of John Anthony Reynard, Paul Alan Latham and Andrew Redmond for the amount detailed at paragraph 5.6 of this Part VII. This debenture is a first ranking, all monies debenture.
- 12.11 Share exchange agreement dated 4 December 2002 between (1) each of the DFD Shareholders and (2) the Company under which the Company agreed to acquire the entire issued ordinary share capital of DFD, conditional on Admission, in consideration for which

the Company will issue and allot 2,335,066 Ordinary Shares. Under the share exchange agreement, the shareholders of DFD have provided limited warranties to the Company, in relation to title and have agreed not to dispose of any interest in their Ordinary Shares for a period of 2 years from Admission without the prior written consent of the Company's nominated adviser.

12.12 Nominated adviser and broker agreements both dated 4 December 2002 between (1) W.H. Ireland and (2) the Company, pursuant to which the Company appointed W.H. Ireland to act as nominated adviser and broker to the Company for the purposes of the AIM Rules. The agreements contain certain undertakings and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreements are for a fixed term of twelve months and subject to termination on 90 days' notice by either party thereafter. In addition, under the agreements, the Company agrees to:-

- (i) give certain undertakings and indemnities to W.H. Ireland;
- (ii) pay to W.H. Ireland, upon completion of Admission and Placing, an aggregate fee of £50,000;
- (iii) an aggregate annual fee of £30,000 plus VAT per annum for its services as nominated adviser and broker under these agreements (save that the aggregate annual fee for the first 12 months will be £20,000 plus VAT);
- (iv) pay to W.H. Ireland a commission of 1 per cent of the aggregate value of all the placing shares at the placing price together with an additional commission of 2 per cent of the aggregate value of such placing shares for which W.H. Ireland subscribes or procures subscribers; and
- (v) issue warrants to W.H. Ireland as described in paragraph 12.13 below.

Further, in the event that Admission and Placing do not occur, the Company agrees to pay a fee of £10,000 to W.H. Ireland.

12.13 On 4 December 2002 the Company executed a Warrant Instrument ("the Warrant Instrument").

The material terms of the Warrant Instrument are as follows:-

- (i) the warrants entitle the warrant holder to subscribe in cash for up to 100,000 Ordinary Shares at a price of 40p per Ordinary Share;
- (ii) the warrants are exercisable at any time during the period commencing on the first anniversary of Admission and ending on the third anniversary of the date of Admission;
- (iii) the warrants are freely transferable.

These warrants are to be issued to W.H. Ireland on Admission.

12.14 The Placing Agreement, full details of which are set out in paragraph 15 of this Part VII.

12.15 A lock-in agreement dated 2 December pursuant to which Keith Seeley and Derek John Oakey agree (subject to Admission) not to dispose and to procure that persons connected to them shall not dispose of any interest in Ordinary Shares prior to the second anniversary of Admission without the prior consent of W.H. Ireland.

12.16 On 4 December 2002 the Company executed a warrant instrument entitling the warrant holder to subscribe in cash for up to 150,000 Ordinary Shares at a price of 10p per Ordinary Share. Such warrants are exercisable at any time up to the third anniversary of Admission.

These warrants are to be issued to Grenville John Folwell upon Admission.

12.17 An agreement dated 4 December 2002 with Tenon Limited in respect of the services of each of the Executive Directors (referred to at paragraph 6.2 of this Part VII). Under this agreement, the Company has entered into restrictive covenants preventing it from, *inter*

*alia*, soliciting or enticing away from Tenon its customers or employees or interfering with its suppliers.

Save as disclosed above and elsewhere in this document (in particular, paragraph 6 of this Part VII) there are no contracts (not being in the ordinary course of business) entered into by the companies within the Group during the two years preceding the date of this document which are or may be material or which contain any provision under which any company within the Group has any obligation or entitlement which is material to the Group as at the date of this document.

### **13. Litigation**

No member of the Group is or has in the 12 months preceding the date of this document been engaged in any legal or arbitration proceedings, nor, so far as the Company is aware, are any such proceedings pending or threatened against the Group which are having, have had or may have a significant effect on the Group's financial position.

### **14. Working Capital**

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

### **15. Arrangements relating to the Placing**

15.1 Pursuant to the Placing Agreement dated 4 December 2002 between (1) W.H. Ireland (2) the Company (3) the Executive Directors and (4) the Non-executive Directors it was agreed, *inter alia*, conditional upon Admission:

- (i) the Company would conditionally agree to allot and W.H. Ireland would conditionally as agent for the Company seek to procure subscriptions for 933,927 Ordinary Shares in the capital of the Company at the Placing Price;
- (ii) the Company would reimburse W.H. Ireland for reasonable costs and expenses incurred in connection with the Admission and Placing;
- (iii) the Company and the Directors would give warranties and indemnities to W.H. Ireland with regard to, *inter alia*, the Company and the accuracy of the Prospectus; and
- (iv) the Directors agree not to dispose, and to procure that persons connected to them shall not dispose of any interest in Ordinary Shares prior to the second anniversary of Admission, without the consent of W.H. Ireland. Thereafter the Directors must notify W.H. Ireland of any disposal of any interest in Ordinary Shares, for long as W.H. Ireland is the nominated adviser or broker to the Company.

The Placing Agreement may be terminated prior to Admission by W.H. Ireland in its absolute discretion in the event that, *inter alia*, any of the above mentioned warranties are untrue in any material respect.

15.2 W.H. Ireland has undertaken to subscribe for 129,286 Placing Shares.

### **16. General Information**

16.1 The nominated adviser and broker to the Company is W.H. Ireland Limited of 11 St James's Square, Manchester M2 6WH.

16.2 W.H. Ireland is registered as a private limited company incorporated in England and Wales under the Act with registered number 2002044 and is regulated by The Financial Services Authority Limited. Its registered office is at 11 St James's Square, Manchester M2 6WH.

16.3 W.H. Ireland has given and not withdrawn its written consent to the issue of this document and references to its name in the form and context in which they appear.

16.4 Horwath Clark Whitehill have given and have not withdrawn their written consent to the issue of this document with the inclusion of and references herein to their reports (for which they take responsibility accordingly) and name in the form and context in which they appear.

16.5 The Company's registrars are Northern Registrars Limited of Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0LA.

16.6 The minimum amount which in the opinion of the Directors must be raised by the Company pursuant to Placing in order to provide the sums required pursuant to paragraph 21 of Schedule 1 of the POS Regulations is as follows:

	<b>£</b>
Purchase price of property	nil
Expenses and commissions	nil*
Repayments of borrowings	nil
Working capital	100,500

\*Expenses and commissions of £149,500 are to be met out of the cash assets of DFD of approximately £226,430, the balance of which is to be used for additional working capital purposes.

16.7 The total cash expenses payable in connection with the Placing and Admission are expected to amount to approximately £149,500 (exclusive of any applicable VAT) which are payable by the Company. Further, W.H. Ireland has been issued with the warrants summarised at paragraph 12.13 above.

16.8 If the Ordinary Shares are admitted to trading on AIM, copies of this document will be available free of charge to the public at the offices of W.H. Ireland Limited, 11 St James's Square, Manchester M2 6WH during normal business hours on any weekday (Saturdays and public holidays excepted) for a period of one month from the date of Admission.

16.9 There are no patents or other intellectual property rights, licenses or particular contracts which are or may be of fundamental importance to the Group's business.

16.10 Other than as set out in this document, there are no investments in progress which are significant.

16.11 Save as disclosed in this document no person (other than the Company's professional advisors whose fees are included in the estimated expenses disclosed in paragraph 16.7 of this Part VII and trade supplies) has received, directly or indirectly, from the Company within the twelve months preceding the Company's application for Admission and no persons (other than as disclosed in this document) have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:

- (a) fees totalling £10,000 or more;
- (b) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
- (c) any other benefit with a value of £10,000 or more at the date of Admission.

16.12 The Company's accounting reference date is 30 April.

## **17. Documents available for inspection**

Copies of the following documents may be inspected at the registered office of the Company and at the offices of W.H. Ireland Limited, 11 St James's Square, Manchester M2 6WH during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this document up to and including one month from the date of Admission:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the agreement, letters of appointment and warrant referred to in paragraph 6 above;
- (c) the material contracts referred to in paragraph 12 above;



- (d) the written consents referred to in paragraph 16 above;
- (e) this Admission Document, dated 4 December 2002;
- (f) the accountants' reports as set out in Parts III to V of this document;
- (g) the audited accounts of Debt Free Direct for the year ended 30 April 2002.

4 December 2002





