

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

The Directors of Ultimate Finance Group plc, whose names appear on page 5 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules published by the London Stock Exchange. 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.

**Application will be made for the New UFG Shares to be admitted to trading on the Alternative Investment Market of the London Stock Exchange. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks 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. Neither the UK Listing Authority nor the London Stock Exchange has examined or approved the contents of this document.**

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

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# ULTIMATE FINANCE GROUP PLC

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 4350565)*

## Offer for Subscription

**of up to 5,300,000 New UFG Shares at 15p per share**

**Nominated Adviser**

**Dawnay, Day Corporate Finance Limited**

**Broker to the Company**

**W.H. Ireland Limited**

**and**

**Interim results for the six months ended 31 December 2003**



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In making any investment decision in respect of the Offer for Subscription, no information or representation should be relied upon in relation to the Offer for Subscription, Ultimate Finance Group plc, any of its subsidiaries or investments or the New UFG Shares, other than as contained in this document. No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised.

The advisers listed on page 5 of this document are acting exclusively as advisers to Ultimate Finance Group plc in connection with the Offer for Subscription and no other person in relation to the matters referred to in this document and will not be responsible to any other person for providing the protections afforded to their clients or for providing advice to any other person on the transactions and arrangements described in this document.

**Completed applications should be received as soon as possible and in any event, not later than 10.00 a.m. on 21 May 2004 (unless extended by the Directors to a date not later than 5.00 p.m. on 28 May 2004). The procedure for application is set out in Part VI of this document and the Application Form is set out at the end of this document.**

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## DEFINITIONS

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

"Act"	the Companies Act 1985 (as amended)
"Admission"	the admission of the New UFG Shares issued pursuant to the Offer for Subscription to trading on AIM becoming effective in accordance with the AIM Rules
"AIM"	the market operated by the London Stock Exchange known as AIM
"AIM Rules"	the rules published by the London Stock Exchange governing admission to and the operation of AIM
"Application Form"	the application form for use in connection with the Offer for Subscription set out at the end of this document
"Company" or "Ultimate Finance" or "UFG"	Ultimate Finance Group plc
"certificated" or "in certificated form"	not in uncertificated form (that is, not in CREST)
"CREST"	the computerised settlement system operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form
"CRESTCo"	CRESTCo Limited
"Directors" or "Board"	the directors of the Company
"Existing Ordinary Shares"	the Ordinary Shares in issue prior to the Offer for Subscription
"FSA"	<i>Financial Services Authority</i>
"FSMA"	Financial Services and Markets Act 2000
"Financial Promotions Order"	Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended)
"FDA"	the Factors and Discounters Association
"Group"	the Company and its subsidiaries
"Issue"	the Placing and the Offer for Subscription
"Issue Price"	15p per New UFG Share
"London Stock Exchange"	London Stock Exchange plc
"New UFG Shares"	the 5,300,000 new Ordinary Shares being made available under the Offer for Subscription
"Offer Agreement"	the agreement dated 28 April 2004 between (1) the Company and (2) Dawnay Day relating to the Offer for Subscription details of which are set out in paragraph of 7.1 Part V of this document
"Offer for Subscription"	the invitation to subscribe for New UFG Shares contained in this document
"Official List"	the Official List of the UK Listing Authority
"Ordinary Shares"	the ordinary shares of 5p each in the capital of the Company
"Overseas Persons"	persons who have registered addresses in or who are citizens or residents of countries outside the UK
"Placing"	the placing by W.H. Ireland, on behalf of the Company, of 3,473,646 new Ordinary Shares announced on 15 April 2004
"POS Regulations"	the Public Offers of Securities Regulations 1995 (as amended)
"Regulations"	the Uncertificated Securities Regulations 2001
"Receiving Agents"	Neville Registrars Limited
"Share Option Schemes"	the Company's Inland Revenue approved company share ownership plan and unapproved share option scheme
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"uncertificated" or "in uncertificated form"	recorded in the register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
"UK Listing Authority" or "UKLA"	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
"W.H. Ireland"	W. H. Ireland Limited
"W.H. Ireland Group"	W. H. Ireland Group plc, the parent company of W. H. Ireland

## **THE OFFER FOR SUBSCRIPTION STATISTICS**

Issue Price	15p
Number of Existing Ordinary Shares	14,697,018
New UFG Shares being issued pursuant to the Offer for Subscription	up to 5,300,000
Number of Ordinary Shares in issue following the Offer for Subscription	19,997,018
Market capitalisation at the Issue Price	£3 million
Estimated net proceeds of the Offer for Subscription	£655,000
Percentage of the enlarged issued ordinary share capital represented by the New UFG Shares	up to 26.5%

**Note:**

The above table assumes full subscription under the Offer for Subscription

## **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Closing date for the Offer for Subscription	10.00 a.m. on 21 May 2004
Trading to commence of the New UFG Shares on AIM and, where applicable, New UFG Shares credited to CREST	27 May 2004
Where applicable, definitive share certificates for New UFG Shares despatched	by 18 June 2004

## **DIRECTORS AND ADVISERS**

<b>Directors</b>	Clive Richard Garston (chairman) Brian Richard Sumner (chief executive) Richard John Pepler (managing director) Jeremy Howard Coombes (operations director) Derek Francis Ashford (non-executive director) Richard Elliot Michael Lee (non-executive director) Mark Jonathan Harris (non-executive director) all of:
<b>Registered office</b>	11 St. James's Square Manchester M2 6WH
<b>Secretary</b>	Darren Telfer Newman
<b>Nominated adviser</b>	Dawnay, Day Corporate Finance Limited 8-10 Grosvenor Gardens London SW1W 0DH
<b>Broker</b>	W.H. Ireland Limited 11 St. James's Square Manchester M2 6WH
<b>Auditors</b>	KPMG Audit Plc 1 The Embankment Neville Street Leeds LS1 4DW
<b>Solicitors to the Company</b>	Halliwell Landau St James's Court Brown Street Manchester M2 2JF
<b>Registrars and receiving agents</b>	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA

## KEY INFORMATION

The following is derived from and should be read in conjunction with the full text of this prospectus. Particular attention is drawn to paragraph 14 of Part I of this document entitled “Risk factors”.

### Ultimate Finance Group PLC:

- founded by an experienced management team
- commenced trading in July 2002
- provides factoring and invoice discounting facilities
- has established its presence in the factoring market
- has achieved steady growth in turnover and
- trading losses are on a reducing trend

### Performance by six monthly period

<i>6 months ended</i>	<i>31 Dec. 2002</i>	<i>30 June 2003</i>	<i>31 Dec. 2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	127	358	554
Pre tax loss	(459)	(196)	(96)
Number of clients at period end	25	59	81

The Directors are confident that continued growth in turnover will result in profits being achieved.

### Risk management

The risks inherent in advancing cash are closely monitored and controlled. The Group's risks are mitigated by:

- client spread with 90 clients, none of which represents over 10% of the factoring and discounting book;
- clients operate in a diverse range of trade sectors;
- potential losses arising from clients' financial difficulties are mitigated by the Group's ability to recover funds from debtors; and
- effective procedures to minimise bad debts.

### Use of proceeds

The proceeds of the Issue will strengthen the Group's capital base and enhance its borrowing capacity, enabling it to fund its growing factoring and invoice discounting books. The proceeds of the Issue will also enable the Group to expand its sales force and continue to build its portfolio, but at a quicker pace than hitherto.

## **Part I**

### **INFORMATION ON THE GROUP**

#### **1 Introduction**

Ultimate Finance started trading in July 2002 as a cash flow finance company managed by a number of experienced executives in the UK factoring, invoice discounting and trade finance markets. The Group operates from offices in Bristol and has a branch in Manchester.

Since the Group's original admission to AIM in June 2002, it has achieved most of the initial objectives set out in the prospectus. Fully operational teams and systems have been established, a steady flow of opportunities has been generated and a growing portfolio of factoring and invoice discounting clients has been built up. The Group now needs to raise additional capital to strengthen its balance sheet and give it the resources necessary to expand the business.

#### *Factoring*

Factoring is a method whereby trading companies raise finance by selling the debts due from their customers on a continuing basis to raise cash for working capital and for expansion. It is in many cases preferable to a bank overdraft for the company and for this reason is a strongly growing sector of the financial market.

#### *Products*

The full factoring package service arrangement provides advances of up to 85% of approved debtors and debt collection / sales ledger management services for client businesses which results in faster payments from customers, without damaging goodwill. Invoice discounting is similar in that clients sell the trade debts due from their customers and receive a cash advance, but the client retains responsibility for its own credit management.

#### *Flexible funding*

The Group's products provide small to medium sized businesses with a highly flexible form of funding based on their debtors. The Directors consider that, at the present time, there continues to be an opportunity in the market for a provider of a range of products aimed at the smaller end of the market, based around factoring and invoice discounting and which can offer the following benefits:

- flexibility of service
- personal service
- professionalism
- access by clients to decision makers
- use of up to date technology
- experienced staff

#### *Experienced management*

The executive directors of Ultimate Finance have spent most of their working lives in this sector of the financial market.

#### *Growing market*

The provision of factoring and similar products has grown rapidly in the UK in recent years. As at 31 December 2003, members of the FDA (a trade body representing factoring and invoice discounting companies) were providing approximately £8.8 billion of funding

showing a 40% increase on the 2000 figure of £6.3 billion (*source: FDA*). Over the same period, turnover achieved by members of the FDA increased from £76.2 billion to £117.1 billion (*source: FDA*).

#### *Reasons for the issue*

The reason for the issue of New UFG Shares is to strengthen the Group's capital base and, together with its borrowing facilities, give it the resources to develop its business. The Company recently issued 3,473,646 new Ordinary Shares at a price of 15p each, raising approximately £495,000 net of expenses from the Placing and wishes to afford its shareholders and other investors the opportunity to increase their holdings at the same price by way of the Offer for Subscription. The Group's net assets, which amounted to approximately £0.95 million at 31 December 2003 (as shown in the interim balance sheet in Part IV of this document) will increase, following the Placing and completion of the Offer for Subscription, by between £600,000 and £1.18 million according to the level of applications under the Offer for Subscription. As is usual for factoring and invoice discounting companies, this will then be supplemented by bank debt.

#### *Financial control*

In common with many early-stage businesses, it was anticipated that losses would be incurred until sufficient clients had been taken on to generate enough revenues to cover costs and overheads. New business is subject to strict credit criteria and control such that the rate of growth is necessarily cautious in order to ensure that the factoring and invoice discounting advances are of good quality.

## **2 The Market**

One of the success stories of the financial services sector since the 1970's has been the growth in the popularity and market penetration of factoring and invoice discounting. These products are now regarded by many financial advisers and banks as the preferred way to fund the working capital requirements of their smaller/medium sized (SME's) business customers. In practice, this means that more of those customers are being encouraged to switch from their normal overdraft arrangements. New business is therefore expanding. The Factors & Discounters Association statistics for the year 2003 show that its members were serving approximately 33,500 businesses in the UK and turning over approximately £117 billion per annum. At the end of 2003 their total advances amounted to £8.8 billion. The Directors believe there is a continuing opportunity for significant growth in the use of factoring products in the UK.

Factoring and invoice discounting provide small and medium-sized businesses with a highly flexible form of funding based on their debtors and, on occasion, finished goods. Funds are in effect provided in line with the growth of a business and are not restricted, as with a normal bank overdraft, by a formula based on the assets or net worth on a balance sheet. More funding can therefore be made available to currently under-resourced businesses. This can be of particular relevance to rapidly growing businesses. Following the Privy Council judgment in the Brumark case and the more recent decision of the English High Court in the Spectrum case, the Directors consider that banks may be more cautious in respect of business funding through overdrafts secured by way of fixed charges over book debts. In this event, it is likely that this will encourage further growth in factoring.

## **3 The Group's Business**

The Group's recourse factoring products accounted for over 90% of the Group's turnover at the last accounts date. Funding is provided, in most cases up to 80% of approved debts, on a continuing basis together with debt collection and sales ledger management for the full factoring service. If a prospective client's internal credit control function is considered effective and efficient the Group may offer a service where the clients manage their own telephone chasing.



Confidential invoice discounting, currently representing approximately 7% of the Group's turnover, offers cash flow finance in a similar way to factoring. The principal differences are that the arrangement is not disclosed to the debtors, the client continues to run its own sales ledger as it is usually equipped to do so and the client's balance sheet, administration and financial management tend to be stronger than the average factoring client.

Both the Group's factoring and its invoice discounting products are provided on a full-recourse basis.

Trade finance and debtor insurance are also offered to clients through close partnerships with specialist providers. No risk accrues to the Group through these activities.

#### 4 Target Market

The Group's target market is currently established businesses with a proven track record and annual turnover of up to £5 million.

The main types of businesses targeted is wide and includes the following:

<i>Manufacturing</i>	<i>Services</i>
Electronics	Recruitment and employment agencies
Engineering	Design
Foods	Transport
Print	Distribution/wholesaling
Plastics recycling	Maintenance
Sundry manufacturing (eg pallets, boilers, earth moving equipment)	Plant hire
	Marketing
	Security
	IT/telecoms

The Directors consider it important to target businesses with simple or straightforward products or services where disputes are the exception and invoices tend to get paid in full without reserve within 90 days or less. In addition, there should be a good spread of customers.

#### 5 Performance

As each new client is won, the accumulating client list results in increasing turnover and cash generation. Turnover from a new client taken on towards the end of a reporting period has little impact on the results for that period, but makes a greater contribution to future results. The effect of this can be seen by comparing the turnover and operating loss for the period from 12 June 2002, when trading commenced, to 31 December 2002 with the results for the six months to 31 December 2003:

	<i>For the period from 12 June 2002 to 31 December 2002 £'000</i>	<i>For the period from 1 January 2003 to 30 June 2003 £'000</i>	<i>For the period from 1 July 2003 to 31 December 2003 £'000</i>
Turnover	127	358	554
Operating Loss	(459)	(196)	(96)
Number of clients at period end	25	59	81

The figures above show an established trend pointing towards increasing numbers of clients. The impact of such new clients on the Group's results, combined with future income expected from existing clients, gives the Board confidence that the end of the predicted early loss-making phase of the Group's initial development is in sight.

## **6 Operations, Premises and Systems**

The Group provides wide geographical coverage within the United Kingdom from its head office in Bristol, a branch office in Greater Manchester and its sales representative in St Albans. These areas have well-established motorway connections enabling easy access to a wide client base.

Richard Pepler, the managing director with overall responsibility for sales, and Jeremy Coombes, the operations director, work from the office on the outskirts of Bristol where the support staff are based.

The northern office sales team covers new business activity in Birmingham and the North West and the sales representative in St Albans covers the South East.

Brian Sumner, chief executive, has overall responsibility for the executive management of the Group.

In addition to in-house systems, the Group uses an outsourced proven and well established combined factoring, invoice discounting and risk management software system from a specialist finance software provider. This gives the Group access to up to date software technology and the capacity to grow the business for the foreseeable future.

## **7 Risk Management**

In order to minimise exposure to bad debts, the Group undertakes an appropriate risk assessment procedure. Risk assessment, which is performed prior to the initial funding and on a regular basis thereafter, involves the following procedures:

- A review of the historical financial record as the first indicator of prior performance when assessing prospective clients.
- The client's latest management accounts and balance sheet and cash flow forecasts are examined along with up to date debtor and creditor aged listings and any business plan.
- Each prospective client's financial controls and management information systems is reviewed. Follow-up reviews take place as required.
- An account manager and / or an executive Director visits each client at least once a year (and more often, as required) to update on progress and deal with any issues. This establishes and re-enforces the relationship.
- Proofs of debt and delivery are examined on a sample basis and the client's customers are contacted, where appropriate, to confirm the debt and / or order.
- The creditworthiness of a client's customers and the likely collectability of the invoices involved are regularly assessed.
- Reserves are made against any bad and doubtful debts and these debts are not funded.
- Security, in varying forms, is always taken.
- The portfolio is managed to avoid a concentration of advances to one client or one major debtor. In addition, funding is also spread across a range of sectors to avoid excessive exposure to any one industry.

The Group's target market is smaller sized businesses. To spread the risk the Group's funds are utilised across a diversified portfolio of clients. At 31 December 2003, total debts under management were £6.5 million, against which the Group had advanced a total of £3.4 million.

## **8 Directors and Staff**

### **Clive Garston (chairman)**

Clive Garston, aged 59, is a solicitor and has been a partner of Halliwell Landau since 1978 specialising in corporate finance and mergers and acquisitions. He was a senior partner of the firm between 1989 and 1995 and is currently the senior partner of the firm's London office. He is a non-executive director of a number of quoted and unquoted companies including Chairman of Sports & Leisure Group plc.

### **Brian Sumner FICM (chief executive)**

Brian Sumner, aged 57, has over 38 years' service in factoring and invoice discounting. Having become a director of Alex Lawrie in the 1970's following senior positions in sales/marketing and operations, in 1983 he founded Boston Financial Company Limited (the foundation stone of what ultimately became Lloyds TSB Commercial Finance Limited) and later founded Causeway Invoice Discounting Limited. The latter company was subsequently sold to N M Rothschild & Sons Limited and renamed Five Arrows Commercial Finance Limited.

### **Richard Pepler MICM (managing director)**

Richard Pepler, aged 44, has 25 years' experience in commercial banking, leasing, trade finance, factoring and invoice discounting and has held a number of senior management and director positions, particularly in sales. Prior to joining the Group, he was sales director and a principal underwriter of all new business for Bibby Factors (Bristol) Limited. He also led group marketing for over two years for The Bibby Group of Factors Limited.

### **Jeremy Coombes (operations director)**

Jeremy Coombes, aged 39, has 18 years experience in factoring in various operational and underwriting roles. Before joining Ultimate Finance Group, Jeremy was the operations director for Bibby Factors (Bristol) Limited where his duties included the development and planning of operation strategy, financial planning and risk control.

### **Derek Ashford (non-executive director)**

Derek Ashford, aged 48, is a chartered accountant and the finance director of W.H. Ireland Group. Derek has wide experience in senior finance roles in both private practice and the financial services sector including a spell in Jersey as Head of Financial Planning and Management Information for the Abbey National Offshore Group.

### **Richard Lee (non-executive director)**

Richard Lee, aged 58, is a corporate strategy consultant and a director of W.H. Ireland Group. He has been a director of various public companies in a variety of industries. Richard is a non-executive chairman of Prime People plc, a fully listed company operating in the recruitment sector, and a non-executive director of Freedom Finance PLC.

### **Mark Harris (non-executive director)**

Mark Harris, aged 38, is a chartered accountant and chief executive of Glenmore Investments Limited, an investment holding company. He has spent a number of years in corporate finance, banking, leasing and financial services. He is also a director of short-term property finance specialist, Bristol and West Investments plc.

### **Key staff**

Key staff include Darren Newman FCCA, the financial controller and company secretary and remotely based senior sales executives, Mark Tapping, formerly of Close Invoice Finance Ltd and Simon Maddocks, ex Abbey Cash Flow Finance.

## **9 Corporate Governance**

The Directors recognise the value of the Principles of Good Governance and Code of Best Practice (the "Combined Code") and take such measures as are necessary to ensure that the Company complies with the Combined Code as is appropriate for a company of its size.

The Directors have established an audit committee and a remuneration committee with formally delegated duties and responsibilities. The members of both committees are the non-executive Directors.

The audit committee, chaired by Mark Harris, determines the terms of engagement of the Company's auditors and determines, in consultation with the Company's auditors, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the interim and annual accounts and the accounting and internal control systems in use by the Company. The audit committee has unrestricted access to the Company's auditors. The remuneration committee, chaired by Richard Lee, reviews the scale and structure of the executive Directors' remuneration and the terms of their service contracts. The remuneration of the non-executive Directors is determined by the Board as a whole.

## **10 Dividend Policy**

The Directors intend to commence the payment of dividends when it becomes commercially prudent to do so and subject to the availability of distributable reserves. They consider that, for the foreseeable future, it is likely that cash generated will be retained to fund further expansion of the Group. No dividends are expected to be paid until the deficit of distributable reserves has been eliminated.

## **11 Bank Funding**

The Group has agreed terms with Lloyds TSB Commercial Finance Limited for a "confidential receivables financing line" of up to £14m over the 19 month period to 31 December 2005 to finance the potential growth of the book. These arrangements provide the Group with a significantly larger amount of funding to advance to clients on more cost effective terms than the current £4.5 million loan facilities from the Bank of Scotland, and will enable the Group to maximise its opportunities for writing new business during the period.

## **12 The Placing**

On 15 April 2004, it was announced that 3,473,646 new Ordinary Shares had been placed with investors at the Issue Price, raising approximately £520,000 before expenses.

Following the Placing, W.H. Ireland Group, its directors and discretionary investment clients of W.H. Ireland (who are deemed to be acting in concert as defined in the City Code on Takeovers and Mergers) controlled the voting rights of a total of 4,371,184 UFG Shares. This represents approximately 29.74% of the total votes capable of being cast in general meeting. This percentage may change, but will not exceed 30%, to the extent that applications are accepted under the Offer for Subscription.

## **13 The Offer for Subscription**

Up to 5,300,000 New UFG Shares are being offered to applicants under the Offer for Subscription at the Issue Price to raise gross proceeds of up to £795,000.

**If the Offer for Subscription is oversubscribed, priority will be given to applications by holders of Existing Ordinary Shares on the register of members on 28 April 2004 using PINK priority application forms.**

Commitments have been received to subscribe for 3,430,000 New UFG Shares under the Offer for Subscription. The remainder of the Offer for Subscription has not been underwritten.

Further details of the Offer for Subscription are set out in Part II of this document.

The expenses of the Offer for Subscription are estimated to amount to approximately £140,000. Accordingly, subject to the level of valid applications received under the Offer for Subscription, the net proceeds of the Offer for Subscription are expected to be between approximately £347,000 (in respect of commitments received) and £655,000.

#### **14 Risk factors**

*In addition to all other information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. 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.*

The Directors believe the following risks to be the most significant for potential investors. However, the risks listed do not necessarily comprise all those associated with an investment in the Company. In particular, the Group's performance may be affected by changes in market or economic conditions and in legal, regulatory and tax requirements.

*(i) Trading*

The Group's trading plans are based on assumptions which the Directors consider to be reasonable but which are inherently subject to variation and uncertainty. There can be no assurance or guarantee that any element of those plans will be fulfilled, that the outcome of the Group's strategy will be achieved or that the Group will achieve revenue or be profitable.

*(ii) Attraction and retention of key employees*

The Company's success depends heavily on the expertise of its executive Directors and, whilst it has entered into contractual arrangements with the aim of securing the services of each of the executive Directors and, following the Issue, such Directors will, in aggregate, hold at least 3,069,515 Ordinary Shares, retention of these services cannot be guaranteed.

*(iii) Further issue of shares*

It may be necessary for the Company to raise additional capital by way of the issue of further Ordinary Shares to enable the Group to progress through further stages of development. There can be no assurance that such funding will be available to the Company.

*(iv) Investment in unlisted securities*

Investment in shares traded on AIM is perceived to involve a higher degree of risk than investment in companies whose shares are listed on the Official List of the UK Listing Authority. An investment in the New UFG Shares may be difficult to realise. The value of the Ordinary Shares may go down as well as up. Investors may therefore realise less than, or lose all of, their original investment.

*(vi) Market acceptance*

Whilst the Directors believe the demand from businesses for the Group's services to be large, there can be no assurance that the Group will be able to attract a sufficient number of customers and sufficient volumes to ensure its long term viability.

*(v) Reliance on factoring software*

The Group's business is reliant on the efficient operation of software which has been specifically developed for the factoring industry. The ability of such factoring software to be used by the Group to function properly depends upon the Group's ability to

protect its network infrastructure, computer equipment and customer files against damage from human error, various natural disasters, power loss and other systems failures. However, despite measures taken by the Company, such as daily data back up and off-site data storage, the occurrence of a natural disaster or other unanticipated problems could result in a loss of customer information or other data integral to the Group's business and/or lead to a material interruption to such business.

(vi) *Banking facility*

The Company has been offered banking facilities from Lloyds TSB Commercial Finance Limited. As is usual, there are certain conditions attaching to these facilities which will determine the extent of the facilities available at any point in time. If those conditions are not met, the Group may not have available funds sufficient to enable it to conduct business in the manner envisaged.

(vii) *Suitability*

The investment offered hereby may not be suitable for all recipients of this document. Investors are accordingly advised to consult an appropriate person authorised under the Financial Services and Markets Act 2000 before making their decision.

(viii) *Share price volatility and liquidity*

The share price of publicly traded, emerging companies can be highly volatile and illiquid. The price at which the Ordinary Shares are quoted and the price which investors may realise for their Ordinary Shares will be influenced by a larger number of factors, some specific to the Group and its operations and some which may affect the quoted financial services sector or quoted companies generally. These factors could include the performance of the Group, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political or regulatory conditions.

## Part II

### Details of the Offer for Subscription

**Applications must be received by post or by hand at the offices of the Receiving Agents, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA to arrive as soon as possible, but in any case no later than 10.00 a.m. on 21 May 2004.**

The subscription list will open at 10.00 a.m. on 21 May 2004 and may be closed at any time thereafter but not later than 3.00 p.m. on 21 May 2004 (unless extended by the Directors to a date not later than 5.00 p.m. on 28 May 2004). The basis on which applications have been accepted is expected to be announced on or around 27 May 2004.

It is expected that definitive share certificates will be posted to successful applicants (other than those who apply for New UFG Shares to be held in electronic form; i.e. in CREST) by 18 June 2004. CREST accounts are expected to be credited in respect of New UFG Shares on 27 May 2004 or, if later following the date of receipt of cleared funds. Dealings prior to receipt of share certificates or the crediting of/or CREST accounts will be at the risk of the applicant(s). A person so dealing must recognise the risk that an application may not have been accepted to the extent anticipated, or at all.

Applications are made on the following terms:

- 1 Save where the context otherwise requires, definitions in this document bear the same meaning when used in the Application Forms.
- 2 The Issue is subject to the satisfaction of the following conditions which must be satisfied by not later than 26 May 2004 (or such later date as the Directors may determine but in any event not later than 1 June 2004):
  - (a) the Offer Agreement having become unconditional in all respects (save only for any condition relating to Admission) and not having been terminated in accordance with its terms; and
  - (b) Admission.
- 3 Cheques and banker's drafts may be presented for payment on receipt thereof by the Receiving Agents and, pending allocation or allotment or return of application monies or any excess of such monies (in each case, without interest), will be retained by the Receiving Agents in a separate account. The Receiving Agents may retain share certificates and surplus application monies and/or not credit CREST accounts pending clearance of each applicant's cheque or banker's draft.
- 4 Cheques or banker's drafts, which should be made payable to "Neville Registrars A/C Ultimate Finance" and crossed "A/C Payee", must be drawn in sterling on an account at a branch of a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS & Town Clearing Company Limited or a member of the Scottish or Belfast clearing houses or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided for the members of either company or such clearing houses. An application may be rejected unless these requirements are fulfilled. Cheques and banker's drafts representing application moneys will be presented for payment upon receipt and it is a term of the Offer for Subscription that cheques will be honoured on first presentation. If any cheque is not so honoured, the related application will be treated as invalid.
- 5 Holders of Existing Ordinary Shares on 28 April 2004 are being sent PINK priority Application Forms. If the Offer for Subscription is oversubscribed the basis of allocation will be determined by Dawnay Day in its absolute discretion after consultation with the Company. **The applicants who entered into commitments to apply for 3,430,000 New UFG**

**Shares will be allotted such shares in full. Subject to the foregoing, Dawnay Day will give priority to applications from holders of Existing Ordinary Shares using PINK priority Application Forms.** An applicant may be allocated New UFG Shares allotted by the Company in such proportions as Dawnay Day in its absolute discretion may determine.

- 6 Dawnay Day may, in its absolute discretion, reject in whole or in part or scale down any application including, without limitation, any application which is considered by Dawnay Day to have been made by a nominee unless such application is accompanied by written confirmation of the identity of the intended beneficial owner. Dawnay Day reserves the right to reject any application in respect of which the applicant's cheque or banker's draft has not been cleared by 12 noon on 26 May 2004. If any application is not accepted, or is accepted for fewer New UFG Shares than the number applied for, the application monies or the balance thereof (as the case may be) will be refunded by returning the applicant's cheque or banker's draft, or by sending a cheque crossed "A/C Payee" in favour of the first named applicant, in each case by post, to the address of the first named applicant without interest at the risk of the applicant(s). Dawnay Day may treat as valid any application which has not been completed in all respects in accordance with the instructions accompanying the relevant Application Form or which is not accompanied by a power of attorney where necessary.
- 7 Applications must be made on an Application Form. By completing and delivering an Application Form, each applicant:
  - (a) offers to acquire the number of New UFG Shares specified in the Application Form (or such smaller number for which his application may be accepted) at the Issue Price on the terms and subject to the conditions set out in the Application Form (of which these terms and conditions and the Procedure for Application form part), the prospectus of which these terms form part and the memorandum and articles of association of the Company;
  - (b) authorises the Receiving Agents to send a share certificate for the number of New UFG Shares for which his application is accepted and/or a cheque crossed "A/C Payee" for any monies returnable (without interest) by post to the address of the first named applicant as set out in his Application Form at his risk and to procure that his name together with the name(s) of any other joint applicant(s) is/are placed on the register of members of the Company in respect of such New UFG Shares and/or credit CREST accounts;
  - (c) warrants that his cheque or banker's draft provided in accordance with paragraph 4 above will be honoured on first presentation and agrees that, if the cheque or banker's draft is not so honoured, he will not be entitled to receive a share certificate in respect of any New UFG Shares applied for or to enjoy or receive or transfer any rights or distributions in respect of any New UFG Shares unless and until payment in cleared funds is made by him for the New UFG Shares and that payment is accepted by Dawnay Day on behalf of the Company (which acceptance shall be at Dawnay Day's absolute discretion and may be on the basis that he indemnifies Dawnay Day, or the Receiving Agents and the Company against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of his cheque or banker's draft to be honoured on first presentation) and that, at any time prior to unconditional acceptance by Dawnay Day of the late payment, Dawnay Day or the Receiving Agents (on behalf of the Company) may (without prejudice to any other rights that it or they may have and without any liability) avoid the agreement to allocate such New UFG Shares to the applicant and may re-allocate such New UFG Shares to some other person, in which case he will not be entitled to any refund or payment (other than the return of such late payment net of any costs) in respect of the New UFG Shares;



- (d) in consideration of (and the Company agreeing that) applications for the New UFG Shares will be considered and processed in accordance with the procedures referred to in this document and as a separate collateral contract between him, the Company and Dawnay Day which will become binding on receipt by the Receiving Agent of his Application Form to or, in the case of applications delivered by hand, upon receipt of his Application Form by the Receiving Agents:
  - (i) agrees that his application may not be revoked until after 1 June 2004; and
  - (ii) agrees that promptly upon request being made, he will supply Dawnay Day in writing with any information reasonably requested in respect of his application.
- (e) agrees that all applications, acceptances of applications and contracts resulting under the Offer for Subscription shall be governed by and construed in accordance with English law and further submits to the non-exclusive jurisdiction of the English courts and agrees that nothing shall limit the rights of the Company or Dawnay Day to bring any action, suit or proceeding arising out of or in connection with any such applications, acceptances of applications or contracts in any other manner permitted by law or in any court of competent jurisdiction;
- (f) warrants that if he signs an Application Form on behalf of any other person(s) (including a corporation) he has due authority to do so and that such person will also be bound by the terms and conditions of application and be deemed to have given the confirmations, warranties and undertakings contained in it;
- (g) warrants that he is not, and is not applying as a nominee or agent for, a person who is or may be liable to stamp duty or stamp duty reserve tax under any of sections 67, 70, 93 or 96 of the Finance Act 1986 (depository receipts and clearance services);
- (h) confirms that, in making his application, neither he nor any person on whose behalf he is applying is relying on any information or representation in relation to the Company or any member of the Company other than such as may be contained in this document and, accordingly, agrees that neither Dawnay Day nor the Company nor the Directors nor any other person acting on behalf of any of them nor any person responsible solely or jointly for this document or any part of this document shall have any liability for any such other information or representation;
- (i) irrevocably authorises the Receiving Agents or Dawnay Day or their agent to do all things necessary to effect registration in his name(s) of any New UFG Shares agreed to be subscribed for by him and authorises any representative of the Receiving Agents or Dawnay Day to execute and/or complete any document of title required for those shares;
- (j) warrants that, in connection with his application, he has complied with and observed the laws of all relevant territories, obtained any requisite governmental or other consents which may be required, complied with all requisite formalities, and paid all issue, transfer or other taxes due in connection with his application in any territory and that he has not taken any action or omitted to take any action which will or may result in Dawnay Day or the Company or any of their respective directors, officers, agents or employees acting in breach of the legal or regulatory requirements of any territory in connection with the Offer for Subscription or his application;
- (k) agrees that, having read this document, he shall be deemed to have notice of all information and representations contained in it;
- (l) agrees that Dawnay Day is advising the Company in connection with the Offer for Subscription and no-one else and that Dawnay Day will not be responsible to him or to anyone other than the Company for providing the protections afforded to customers of Dawnay Day or for providing advice in relation to the Offer for Subscription; and

(m) warrants that he is not, and is not applying on behalf of, a person who is under the age of 18 on the date of his application, save that he may apply in his own name for the benefit of such person, as described in the Procedure for Application.

- 8 Acceptance of an application will be effected at the election of Dawnay Day by notification from Dawnay Day to the Receiving Agents.

It is a condition of any application by a person outside the UK that he has satisfied himself as to the full observance of the laws of any relevant territory in connection with the application, including the obtaining of any governmental or other consents which may be required and compliance with other necessary formalities, and has paid or will pay any issue, transfer or other taxes required to be paid in such territory in respect of any New UFG Shares acquired under the Offer for Subscription.

- 9 **To ensure compliance with the Money Laundering Regulations 2003 (“the Laundering Regulations”), the Receiving Agents may, at their absolute discretion, require verification of identity from an applicant.** If the value of the application is £10,000 or more (or is one of a series of linked applications the aggregate value of which equals or exceeds that amount), the verification of identity requirements of the Money Laundering Regulations 1993 will apply and verification of the identity of the applicant(s) may be required. A failure to provide the necessary evidence of identity may result in the rejection of your application or in delay in the despatch of a share certificate or the return of the application monies. In order to avoid this, you should ideally make payment by means of a cheque drawn by the person named in Box 4 of the Application Form. If this is not practicable and you use a cheque drawn by a third party or a building society cheque or a bankers’ draft, you should:

- (i) write the name and address of the person named in Box 4 of the Application Form on the back of the cheque, building society cheque or the bankers’ draft;
- (ii) if a building society cheque or banker’s draft is used, ask the building society or bank to endorse on the cheque or banker’s draft the name and account number of the person whose building society or bank account is being debited. The bank or building society endorsement should be overlaid with the branch stamp; and
- (iii) if you are making the application as agent for one or more persons, indicate in the bottom of the Application Form whether you are a UK or EC regulated person or institution (e.g. a bank or broker) and specify your status. If you are not a UK or EC regulated person or institution, you should contact the Receiving Agents at the address set out on page 5 or by telephone on 0121 585 1131 and seek guidance.

If within a reasonable period of time following a request for verification of identity, Dawnay Day or the Receiving Agents have not received satisfactory evidence, the Company may at its absolute discretion reject your application in which event the application monies will be returned without interest by cheque to the first named applicant.

For applicants resident in the UK, this may involve verification of names and addresses through a reputable agency. For non-UK resident applicants, verification of identity may be sought from the applicant’s bank or from another reputable financial institution or professional adviser in the applicant’s country of residence.

By lodging an Application Form, each applicant undertakes to provide such evidence of identity at the time of lodging an Application Form or, in the absolute discretion of the Company, within a reasonable time thereafter (in each case, to be determined at the absolute discretion of the Company and the Receiving Agents) as may be required to ensure compliance with the Laundering Regulations.

Dawnay Day is entitled to treat as invalid any applications for New UFG Shares comprised in an Application Form if, by 3.00 p.m. on 26 May 2004, the Receiving Agents have determined pursuant to procedures maintained under the Laundering Regulations that satisfactory evidence

as to identity has not been received within reasonable period of time in respect of the Application Form in question.

### **Overseas Shareholders**

**The making of the Offer for Subscription to persons not resident in the United Kingdom or who are citizens of countries other than the United Kingdom may be affected by the laws or regulatory requirements of such relevant jurisdiction. No person receiving a copy of this document and/or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him/her, nor should he/she in any event use such Application Form, unless in the relevant territory such as an invitation or offer could lawfully be made to him/her and such Application Form could lawfully be used without compliance with any registration or other legal or regulatory requirements other than any which have been fulfilled.**

**It is the responsibility of any person resident outside the United Kingdom or who is a citizen of a country other than the United Kingdom wishing to apply for any New UFG Shares under the Offer for Subscription to satisfy himself/herself as to the full observance of the laws of the relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required and compliance with any other formalities needing to be observed in such territory and payment of any issue, transfer or other taxes due in such territory.**

Persons (including, without limitation, nominees and trustees) receiving a copy of this document and/or and Application Form in connection with the Offer for Subscription must not distribute or send either of these documents in or into the United States, Canada, Australia, the Republic of Ireland or Japan or their respective territories or possessions or any other jurisdiction where to do so would or might contravene local securities laws or regulations (together the "prohibited territories"). If a copy of this document and/or an Application Form is received by a person who in any of the prohibited territories or by his/her agent or nominee of such a person, he/she must not seek to take up the New UFG Shares under the Offer for Subscription. Any person who does forward a copy of this document and/or an Application Form into any prohibited territory, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the receipt to the contents of this Part II.

The Company reserves the right to accept or reject in its absolute discretion Application Forms received from persons in any prohibited territory or persons it believes are acquiring New UFG Shares for resale in any such territory. Any person who is in any doubt as to his/her position should consult an appropriate professional adviser without delay.

### *United States and Canada*

As the New UFG Shares are not being registered under the United States Securities Act of 1933 (as amended) (the "Securities Act") and as the relevant exemptions are not being obtained from the appropriate provincial authorities in Canada, the New UFG Shares are not being offered in or for purchase by persons resident in the United States of America (including the States thereof and the District of Columbia) (the "USA") or Canada or any territory or possession thereof ("North America"). Applications from any North American person who appears to be or whom the Company or Dawnay Day have reason to believe to be so resident or the agent of any person so resident may be deemed to be invalid. No Application Form will be sent to any person so resident whose registered address is in North America. If an Application Form is received by any person whose registered address is elsewhere but who is in fact a North American person or the agent of a North American person so resident, he/she should not apply under the Offer for Subscription.

The Company reserves the right to invite a limited number of Shareholders in the USA to apply for the New UFG Shares who may qualify as an institutional "accredited investor" as defined in Rule 501(a) under the Securities Act, under restrictions designed to preclude a distribution which would require registration of such New UFG Shares under the Securities Act and otherwise to ensure compliance with the laws of the USA. Any such New UFG Shares acquired

by an institutional “accredited investor” will be deemed “restricted securities” for purposes of USA securities laws and subject to restrictions on re-sale or transfer. In addition, any such investor will be required to make certain representations and warranties to the Company in connection with any such investment.

#### *Australia*

No prospectus in relation to the New UFG Shares has been lodged with, or registered by, the Australian Securities and Investments Commission. A person may not:

- (a) directly or indirectly offer for subscription or purchase, or issue an invitation to subscribe for or buy or sell, the New UFG Shares; or
- (b) distribute any draft or definitive document in relation to any such offer, invitation or sale in the Commonwealth of Australia, its states, territories or possessions (“Australia”) or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of such a corporation or entity located outside Australia).

Accordingly, this document and the Application Form will not be issued to persons with registered addresses in, or to residents of, Australia.

#### *Republic of Ireland*

In order to comply with the laws of the Republic of Ireland, no Applications Forms will be sent to persons with registered addresses in the Republic of Ireland.

#### *Japan*

The Offer for Subscription is not being made in Japan and the New UFG Shares will not be available for purchaser by any resident of Japan, including any corporations organised under the laws of Japan.

#### *Other overseas territories*

Shareholders resident in other overseas territories should consult appropriate professional advisers as to whether they require any governmental or other consents or need to observe any further formalities to enable them to apply for any New UFG Shares.

**Part III**  
**Financial Information**

**1. Nature of financial information**

The financial information set out in this Part III represents the full text of the audited consolidated financial statements of Ultimate Finance Group plc for the period from the date of its incorporation, 10 January 2002 to 30 June 2003. The directors of Ultimate Finance Group plc accept responsibility for the financial statements and have confirmed that they have been prepared in accordance with the Companies Act 1985.

The financial information on Ultimate Finance Group plc for the period ended 30 June 2003 constitutes statutory accounts within the meaning of Section 240 of the Companies Act 1985, which have been delivered to the Registrar of Companies.

The page references below relate to the audited consolidated financial statements and not to the pages in this document.

**2. Consent letter**

Set out below is the letter from the Company's auditors as required by paragraph 45(1)(a)(iv) of Schedule 1 to the Public Offers of Securities Regulations 1995.



KPMG Audit Plc  
1 The Embankment  
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Leeds  
LS1 4DW  
United Kingdom

The Directors  
Ultimate Finance Group plc  
1st Floor  
Aztec Centre  
Aztec West  
Almondsbury Bristol  
BS32 4TD

The Directors  
Dawnay, Day Corporate Finance  
Limited  
15 Grosvenor Gardens  
London  
SW1W 0BD

30 April 2004

Dear Sirs

**Ultimate Finance Group plc**

We consent to the inclusion in the Offer for Subscription dated 30 April 2004 ('the document') of our reports dated 26 September 2003 and 30 April 2004 in the form and context in which they appear. We attach a copy of the document initialled by us for the purpose of identification.

Yours faithfully

*KPMG Audit Plc*

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## **Chairman's statement**

### **Results**

I am delighted to report that notwithstanding the difficult economic conditions prevailing in the UK since the admission of your company's share capital to AIM on 12 June 2002, Ultimate's business has performed well and delivered a solid performance in line with our original expectations.

Since trading commenced, the company has secured a well spread portfolio of 59 clients. Our recourse factoring products accounted for 95% of the group's turnover in the period with the remaining 5% being confidential invoice discounting. The turnover for the period was £485,117 reflecting significant growth in the last six months. Overheads were almost constant during the whole period and amounted to £1,140,077. The loss on ordinary activities before taxation was £663,083 and the loss per share was 5.91p. During the period the company financed sales of £18.4m. At 30 June 2003 factored debt stood at £5.1m against which £2.8m was advanced to clients. Of the total availability under the Bank of Scotland revolving credit facility, £2.1m had been drawn down with £2.3m being unutilised.

Staffing levels have increased during the period as the number of clients and debtors have increased. At the end of the year, staff numbers totalled 13.

During the last six months of the period, the company increased its geographical spread with the recruitment of a senior executive with responsibility for the south-east of England. This together with the two offices operating in Bristol and Greater Manchester leads me to believe that the business is well positioned to achieve continued growth in its target markets.

### **Directors**

During the course of the trading period Mark Harris joined the Board as a non-executive director. He is a chartered accountant with a background in corporate finance and banking. He is, currently, chief executive of Glenmore Investments Limited one of the group's major shareholders. I welcome him to the Board and am grateful to him for the knowledge and experience he brings to it. Mark has also accepted the role as chairman of the audit committee.

### **Thanks**

I am grateful to all my colleagues on the Board for their consistent support and guidance throughout the year and to our chief executive, Brian Sumner, and his executive team for successfully establishing the company's business on a firm foundation. I would like to say thank you to all the employees of Ultimate for their dedication, support and continuing efforts. Their professionalism and quality will play a key role in the group's future success.

Finally, I would like to thank our shareholders for their patience. We are dedicated to providing shareholder value.

### **Outlook**

Notwithstanding the difficulty that many UK businesses are currently experiencing as a result of an uncertain political and economic climate, the market for factoring and discounting continues to grow. Ultimate Finance is ideally placed to capitalise on this growth.

**Clive R Garston**

*Chairman*

## Chief Executive's review

### Introduction

Our factoring and invoice discounting services provide small and medium-sized businesses with a highly flexible form of funding. Funds are not restricted (as with a normal bank overdraft) by a formula based on the assets or net worth on a balance sheet. This flexibility is driving the demand for factoring and discounting products at the expense of the traditional bank overdraft. As a result our target market is growing strongly, despite uncertain economic and political conditions, affording significant business opportunities for the group in the future, particularly given our flexible approach and commitment to personal service.

The group's client portfolio is currently in line with expectations and reflects a wide range of business activities, located throughout England and Wales, served from the company's offices in Bristol and the Greater Manchester area.

### Main products

Our recourse factoring products account for over 95% of the group's turnover. Funding is provided, in most cases up to 80% of approved debts, on a continuing basis together with debt collection and sales ledger management for the full factoring service. If the prospect's internal credit control function is considered effective and efficient our Bulk Factoring solution may be offered or alternatively a service where the clients manage their own telephone chase up.

Confidential invoice discounting, currently some 5% of the book, offers cash flow finance in a similar way to factoring. The differences are that the arrangement is not disclosed to the debtors, the client continues to run its own sales ledger as it is usually equipped to do so, and the client's balance sheet, administration and financial management tend to be stronger than the average factoring client.

Trade finance and debtor insurance are offered to our clients through close partnerships with specialist providers. No risk accrues to the group through these activities.

### Performance

As each new client is won, the accumulating client list results in increasing turnover and cash generation. Turnover from a new client taken on towards the end of a reporting period has little impact on the results for that period, but makes a greater contribution to future results. The effect of this can be seen by comparing the turnover and operating loss for the period from 12 June 2002, when trading commenced, to 31 December 2002 with the results for the six months to 30 June 2003:

	<i>For the period from 12 June 2002 to 31 December 2002 £'000</i>	<i>For the period from 1 January 2003 to 30 June 2003 £'000</i>
Turnover	127	358
Operating Loss	(459)	(196)

The generation of income from existing clients for the whole of the next reporting period, combined with the impact of net new clients' contribution for part of it, gives the Board confidence that the end of the predicted early loss making phase of your company's initial development is in sight.



**People**

Our commitment to a personal service ethic is setting us apart from our main competitors. I fully recognise that our staff are our greatest asset and we have been fortunate to be able to assemble an excellent team of industry professionals. I would like to add my own thanks to them for all their hard work and commitment since forming the group.

**Risk management**

Experienced and well-qualified staff, together with strong systems, processes and procedures have been introduced throughout the business to ensure that risk management benefits from the industry's best practice. Tried and tested portfolio management techniques continue to be applied to reduce risk wherever possible.

We have successfully managed risk during the period whilst continuing to provide the top class service expected by our clients. No bad debts have been experienced during the year.

We are continuing to build and develop our core infrastructure and systems to cope successfully with the increasing demands made upon it.

Our target market is smaller sized businesses and to spread the risk our funds are utilised across a diversified portfolio of clients. At 30 June 2003 total debts under management were £5.1m, against which we had advanced a total of £2.8m.

**The future**

We have now built a solid foundation on which to grow the group robustly in the future. The market for factoring and discounting continues to grow giving us increasing numbers of good quality opportunities to win business. We fully expect to continue gaining business at the expense of some of our larger and less flexible competitors through the combination of a well-structured solution at a competitive price with the onus on high service levels.

**Brian Sumner**

*Chief Executive*

**Corporate governance**

The Board has given consideration to the Combined Code of Corporate Governance issued by the London Stock Exchange. Although companies traded on AIM are not required to provide Corporate Governance disclosure, the directors have chosen to provide certain information on how the company has adopted various principles of the Code.

**The Board and its Committees**

The group Board is currently made up of three executive and four non-executive directors. The Board is responsible for the overall direction and strategy of the group and meets regularly throughout the year. Under the company's Articles of Association, one third of the directors are required to retire by rotation each year.

The Board has formally established a number of committees and agreed their terms of reference, these committees being:

**Remuneration Committee**

The principal function of this Committee is to determine the policy on Executive appointments and remuneration. The Committee consists of three non-executive directors, Richard Lee, who chairs the Committee, Clive Garston and Mark Harris. It is the aim of the Committee to attract, retain and motivate high calibre individuals with a competitive remuneration package.

Remuneration for an executive normally comprises of basic salary, bonus, benefits in kind and options. Details of the current directors' remuneration and the executive share option scheme are given in the Directors' report and the notes to the financial statements.

The Chief Executive may be invited to attend certain discussions of the Committee.

**Audit Committee**

The Committee is made up of Mark Harris as Chairman of the Committee and two non-executive directors, Derek Ashford and Clive Garston. Its principal terms of reference are to review compliance with all relevant financial services legislation and regulation, adherence to the group's own internal procedures and the identification of operational, credit and other financial risks.

**Internal Control**

The directors acknowledge that they are responsible for the system of internal control established by the group and place considerable importance on maintaining a strong control environment. However, any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

Detailed internal control procedures exist throughout the group's operations and compliance is monitored by management.

**Directors' report**

The directors present their annual report and the audited financial statements for the period from 10 January 2002 to 30 June 2003.

**Principal activities**

The company has one trading subsidiary, Ultimate Finance Limited and three dormant subsidiaries, Ultimate Factors Limited, Ultimate Asset Finance Limited and Ultimate Cash Flow Limited.

The company was incorporated on 10 January 2002 and changed its name from Hallco 694 plc to Ultimate Finance Group plc on 20 May 2002.

The principal activities of the group throughout the period were the provisions of factoring, invoice discounting and trade finance services.

**Business review**

A review of the business can be found in the Chairman's Statement on page 3 and the Chief Executive Officer's review on pages 4 and 5.

**Proposed dividend**

The directors do not recommend the payment of a dividend.

**Policy and practice on payment of creditors**

It is the group's payment policy with all suppliers to settle outstanding accounts in accordance with the terms and conditions agreed when placing orders. At the year end, there were 19 days purchases in trade creditors.

**Directors and directors' interests**

The directors who held office during the period were as follows:

H.L. Directors Limited  
Clive Garston  
Brian Sumner  
Richard Pepler  
Jeremy Coombes  
Derek Ashford  
Richard Lee  
Mark Harris

H.L. Directors Limited resigned as a director on 24 May 2002 and Messrs Garston, Sumner, Pepler, Coombes, Ashford and Lee were appointed directors of the company on that date.

Mark Harris was appointed a director of the company on 22 October 2002.

All directors who held office at the end of the financial year, being eligible, offer themselves for election at the next annual general meeting.

**Directors' report (continued)****Directors and Directors' Interests (continued)**

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the company according to the register of directors' interests:

	<i>Ordinary shares of 5p each</i>	
	<i>Interest on admission to AIM</i>	<i>Interest at end of year</i>
Clive Garston	121,010	141,810
Brian Sumner	1,083,345	1,201,845
Richard Pepler	800,010	817,510
Jeremy Coombes	700,010	700,010
Derek Ashford	41,000	41,000
Richard Lee	41,000	41,000
Mark Harris	—	—

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company (or any other group company) were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

	<i>Date of grant</i>	<i>Options granted</i>	<i>Exercise price</i>	<i>Exercise dates</i>
Brian Sumner	7 June 2002	100,000	24p	7 December 2003 to 6 June 2009
Richard Pepler	7 June 2002	100,000	24p	7 December 2003 to 6 June 2009
Jeremy Coombes	7 June 2002	100,000	24p	7 December 2003 to 6 June 2009

**Major shareholdings**

At 26 September 2003, the last practicable date prior to the publication of this report, the company had been notified of the following shareholdings (other than directors) in excess of 3% of the ordinary share capital:

	<i>Ordinary Shares</i>	<i>%</i>
W.H. Ireland Group plc	3,084,684	27.48
Glenmore Investments Limited	1,459,035	13.00

**Political and charitable contributions**

The group made no political contributions and no charitable donations during the period.

**Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

**Annual General Meeting**

Notice of the Annual General Meeting of the company to be held at 1st Floor, Aztec Centre, Aztec West, Almondsbury, Bristol BS32 4TD at 10.30 a.m. on Friday 28 November 2003 is enclosed with this report, together with a form of proxy.

By order of the Board

**Brian Sumner**

*Director*

11 St. James's Square

Manchester

M2 6WH

26 September 2003

**Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



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LS1 4DW  
United Kingdom

### **Report of the independent auditors to the members of Ultimate Finance Group plc**

We have audited the financial statements on pages 13 to 28.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 10, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information in the annual report, including the corporate governance statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements

- give a true and fair view of the state of affairs of the company and the group as at 30 June 2003 and of the loss of the group for the period then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

**KPMG Audit Plc**  
*Chartered Accountants,*  
*Registered Auditor*

26 September 2003



**Consolidated profit and loss account***for the period from 10 January 2002 to 30 June 2003*

	<i>Note</i>	<i>2003</i> £
<b>Turnover</b>	<i>1,2</i>	485,117
Administrative expenses		(1,140,077)
<b>Operating loss</b>		(654,960)
Other interest receivable and similar income		22,722
Interest payable and similar charges	<i>6</i>	(30,845)
<b>Loss on ordinary activities before taxation</b>	<i>3</i>	(663,083)
Tax on profit on ordinary activities	<i>1,7</i>	–
<b>Loss on ordinary activities after taxation</b>		(663,083)
<b>Basic and fully diluted loss per share</b>	<i>21</i>	(5.91)p

All amounts relate to continuing activities.

Trading commenced on 12 June 2002 and the above results relate to the activities carried out since that date. The company was dormant for the period from incorporation on 10 January 2002 to 12 June 2002, being the date its shares were admitted to AIM.

There are no recognised gains or losses in the period except those reported above.

**Consolidated balance sheet***At 30 June 2003*

	<i>Note</i>	<i>2003</i> <i>£</i>
<b>Fixed assets</b>		
Tangible assets	<i>1,9</i>	29,566
<b>Current assets</b>		
Debtors	<i>11</i>	2,883,433
Cash at bank and in hand		404,130
		<u>3,287,563</u>
<b>Creditors: amounts falling due within one year</b>	<i>12</i>	<u>(2,202,381)</u>
<b>Net current assets</b>		<u>1,085,182</u>
<b>Net assets</b>		<u>1,114,748</u>
<b>Capital and reserves</b>		
Called up share capital	<i>13</i>	561,169
Share premium account	<i>14</i>	1,216,662
Profit and loss account	<i>14</i>	<u>(663,083)</u>
<b>Shareholders' funds (all equity)</b>		<u>1,114,748</u>

These financial statements were approved by the Board of directors on 26 September 2003 and were signed on its behalf by:

**Brian Sumner***Director*

**Company balance sheet***At 30 June 2003*

	<i>Note</i>	<i>2003 £</i>
<b>Fixed assets</b>		
Investments	<i>10</i>	8
<b>Current assets</b>		
Debtors	<i>11</i>	3,537,679
Cash at bank and in hand		<u>170,673</u>
		3,708,352
<b>Creditors: amounts falling due within one year</b>	<i>12</i>	<u>(2,060,415)</u>
<b>Net current assets</b>		<u>1,647,937</u>
<b>Net assets</b>		<u>1,647,945</u>
<b>Capital and reserves</b>		
Called up share capital	<i>13</i>	561,169
Share premium account	<i>14</i>	1,216,662
Profit and loss account	<i>14</i>	<u>(129,886)</u>
<b>Shareholders' funds (all equity)</b>		<u>1,647,945</u>

These financial statements were approved by the Board of directors on 26 September 2003 and were signed on its behalf by:

**Brian Sumner***Director*

**Consolidated cash flow statement***for the period from 10 January 2002 to 30 June 2003*

	<i>Note</i>	<i>2003 £</i>
<b>Reconciliation of operating loss to net cash flow from operating activities</b>		
Operating loss		(654,960)
Depreciation charges		8,607
Increase in debtors		(2,883,433)
Increase in creditors		120,753
<b>Net cash outflow from operating activities</b>		<u>(3,409,033)</u>
<b>Cash flow statement</b>		
<b>Cash flow from operating activities</b>		(3,409,033)
<b>Returns on investments and servicing of finance</b>	<i>18</i>	(8,123)
<b>Capital expenditure</b>	<i>18</i>	<u>(38,173)</u>
Cash outflow before financing		(3,455,329)
<b>Financing</b>	<i>18</i>	<u>3,827,831</u>
<b>Increase in cash in the period</b>		<u>372,502</u>
<b>Reconciliation of net cash flow to movement in net debt</b>	<i>19</i>	
<b>Increase in cash in the period</b>		372,502
Cash inflow from debt in the period		<u>(2,050,000)</u>
<b>Movement in net debt in the period</b>		(1,677,498)
<b>Net debt at the start of the period</b>		<u>—</u>
<b>Net debt at the end of the period</b>		<u>(1,677,498)</u>

**Reconciliation of movements in shareholders' funds**  
*for the period from 10 January 2002 to 30 June 2003*

	<i>Group</i> 2003 £	<i>Company</i> 2003 £
Loss for the period	(663,083)	(129,886)
New share capital subscribed (net of issue costs)	1,777,831	1,777,831
<b>Net addition to shareholders' funds</b>	<u>1,114,748</u>	<u>1,647,945</u>
Opening shareholders' funds	–	–
<b>Closing shareholders' funds</b>	<u><u>1,114,748</u></u>	<u><u>1,647,945</u></u>

On incorporation, the authorised share capital of the company was £50,000 divided into 50,000 ordinary shares of £1 each ("Old Shares") of which 2 were in issue, fully paid or credited as fully paid.

On 28 May 2002, by or pursuant to resolutions of the company passed on that date each of the Old Shares was sub-divided into 20 ordinary shares and the authorised share capital of the company was increased from £50,000 to £1,000,000 by the creation of an additional 15,360,000 ordinary shares and 3,640,000 redeemable preference shares of 5p each (the "Redeemable Preference Shares")

On 28 May 2002, C R Garston, B R Sumner, R J Pepler, J H Coombes, D F Ashford and R E M Lee were allotted 100,000, 1,000,000, 800,000, 700,000, 20,000 and 20,000 Redeemable Preference Shares respectively and W.H. Ireland Group plc and Glenmore Investments Limited were allotted 918,850 and 81,150 Redeemable Preference Shares respectively, in each case at 5p per share. On 11 June 2002 all the Redeemable Preference Shares were converted into and redesignated as ordinary shares pursuant to the company's articles of association.

On 12 June 2002 11,223,372 ordinary shares were issued at 24p. In addition there were outstanding options under the non-Inland Revenue share option scheme over 300,000 ordinary shares as detailed on page 8 of this report and warrants to subscribe for 561,165 ordinary shares initially issuable as to 112,233 to Dawnay, Day Corporate Finance Limited and as to 448,932 to W.H. Ireland Group plc. Each warrant entitles the holder to subscribe for one ordinary share at 24p. The warrants are transferable and must be exercised between 11 June 2004 and 11 June 2009.

**Notes**  
**(forming part of the financial statements)**

**1. Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

***Basis of preparation***

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

The Board is required to report as to whether it is appropriate for the financial statements to be prepared on a going concern basis. The executive directors have prepared a budget which demonstrates a good future for the company and that the finances are sound. The company's bankers have indicated that they see no reason at present, why the current facilities would not be extended to at least 30 September 2004. The Board therefore continues to adopt the going concern basis in preparing the financial statements.

***Basis of consolidation***

The group financial statements consolidate the financial statements of Ultimate Finance Group plc and all of its subsidiary companies made up to 30 June 2003.

No profit and loss account is presented for Ultimate Finance Group plc as provided by Section 230 (3) of the Companies Act 1985.

***Fixed assets and depreciation***

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Office equipment including network equipment	–	2 – 5 years
Computer equipment excluding network equipment	–	3 years

***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

***Leases***

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

***Post-retirement benefits***

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged to the profit and loss account includes the contributions payable to the scheme in respect of the accounting period.

***Taxation***

Deferred tax liabilities are recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred tax assets are recognised only when the directors believe that it is more probable than not that it will be recovered in the next twelve months.

## Notes (continued)

### 1. Accounting policies (continued)

#### **Turnover**

Turnover represents fees (excluding value added tax) and discount income. Fees are recognised when service is provided and discount income is recognised on funds advanced to clients as it becomes due.

#### **Cash and liquid resources**

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

#### **Introducer commissions**

Commissions payable to the introducers of business are charged to the profit and loss account over the minimum period of the service contract. In the event of early termination of a client's factoring arrangement, any commission not already charged to the profit and loss account is written off in full.

#### **Client commitments**

Amounts due to clients under recourse factoring agreements are offset against the related trade debtors. The resulting balance represents net client commitments and is included in debtors.

#### **Client provisions**

Provision is made specifically in relation to clients with outstanding advances where recoverability is doubtful.

### 2. Turnover

Turnover arises wholly from the principal activities of the group. It comprises service fees, discount charges and other income net of VAT. Turnover, losses and net assets arise wholly within the United Kingdom.

### 3. Loss on ordinary activities before taxation

	2003
	£
<b>Loss on ordinary activities before taxation is stated after charging</b>	
Auditors' remuneration:	
Audit	15,000
Other services – fees payable to the auditor and its associates	3,500
Depreciation and other amounts written off tangible fixed assets:	
Owned	8,607
Hire of other assets – operating leases	76,017

**Notes (continued)**

**4. Remuneration of directors**

	<i>Salary</i>	<i>Benefits</i>	<i>Bonus on commence- ment of trading</i>	<i>Total for period ended 30 June 2003</i>	<i>Pension contri- butions for period ended 30 June 2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
<b>Executives</b>					
Brian Sumner	83,438	2,151	16,897	102,486	11,375
Jeremy Coombes	72,605	983	3,621	77,209	6,500
Richard Pepler	65,000	7,558	14,483	87,041	6,500
<b>Non Executives</b>					
Clive Garston	16,250	—	—	16,250	—
Derek Ashford	10,833	—	—	10,833	—
Mark Harris	6,935	—	—	6,935	—
Richard Lee	10,833	—	—	10,833	—

	<i>Number of directors</i>
Retirement benefits are accruing to the following number of directors under money purchase schemes	3

**5. Staff numbers and costs**

The average number of persons employed by the group (including directors) during the period was 13. The aggregate payroll costs of these persons were as follows:

	<i>2003 £</i>
Wages and salaries	455,883
Social security costs	45,686
Other pension costs	34,555
	<u>536,124</u>

**6. Interest payable and similar charges**

	<i>2003 £</i>
On bank loans and overdrafts	<u>30,845</u>



**Notes (continued)**

**7. Taxation**

No taxation arose due to the losses incurred in the period. The Group has accumulated tax losses available for offset against future profits of £668,734.

***Factors affecting the tax charge for the current period***

The current tax charge for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2003 £
<b><i>Current tax reconciliation</i></b>	
Loss on ordinary activities before tax	(663,083)
Current tax at 30%	(198,925)
<b><i>Effects of:</i></b>	
Expenses not deductible for tax purposes	5,272
Capital allowances for period in excess of depreciation	(8,748)
Non utilisation of tax losses	200,621
Other timing differences	1,780
Total current tax charge (see above)	Nil

**8. Result of the parent company**

The parent company's loss for the period to 30 June 2003 amounted to £129,886.

**Notes (continued)**

**9. Tangible fixed assets**

<b>Group</b>	<i>Office equipment including network equipment £</i>	<i>Computer equipment excluding network equipment £</i>	<i>Total £</i>
<b>Cost</b>			
At 10 January 2002	—	—	—
Additions	8,341	29,832	38,173
At 30 June 2003	8,341	29,832	38,173
<b>Depreciation</b>			
At 10 January 2002	—	—	—
Charge for the period	2,166	6,441	8,607
At 30 June 2003	2,166	6,441	8,607
<b>Net book value</b>			
At 30 June 2003	<b>6,175</b>	<b>23,391</b>	<b>29,566</b>
At 10 January 2002	—	—	—

**10. Fixed asset investments**

The undertakings in which the company's interest at the year end is more than 20% are as follows:

<i>Name of company</i>	<i>Principal activity</i>	<i>Class of shares held</i>	<i>Proportion held</i>
Ultimate Finance Limited	Provision of invoice discounting and debt factoring services	2 ordinary shares of £1 each	100%
Ultimate Cash Flow Limited	Dormant	2 ordinary shares of £1 each	100%
Ultimate Factors Limited	Dormant	2 ordinary shares of £1 each	100%
Ultimate Asset Finance Limited	Dormant	2 ordinary shares of £1 each	100%

All subsidiary companies are incorporated in the United Kingdom.

**Notes** *(continued)*

**10. Fixed asset investments** *(continued)*

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	<i>Capital and reserves £</i>	<i>Loss for the year £</i>
Ultimate Finance Limited	2	(533,197)
Ultimate Cash Flow Limited	2	–
Ultimate Factors Limited	2	–
Ultimate Asset Finance Limited	2	–

**11. Debtors**

	<i>Group 2003 £</i>	<i>Company 2003 £</i>
Gross factored debts receivable	5,126,860	–
Due to clients on collection	(2,309,101)	–
Client commitments	2,817,759	–
Amounts owed by group undertakings	–	3,504,686
Other debtors	13,922	654
Prepayments and accrued income	51,752	32,339
	<u>2,883,433</u>	<u>3,537,679</u>

**Notes (continued)**

**12. Creditors: amounts falling due within one year**

	<i>Group</i> 2003 £	<i>Company</i> 2003 £
Bank loans and overdrafts	2,081,628	2,050,000
Trade creditors	31,612	–
Taxation and social security	34,037	–
Other creditors	39,687	8,253
Accruals and deferred income	15,417	2,162
	<u>2,202,381</u>	<u>2,060,415</u>

**13. Called up share capital**

	2003 £
<i>Authorised</i>	
Equity: 20,000,000 ordinary shares of 5p each	<u>1,000,000</u>
<i>Allotted, called up and fully paid</i>	
Equity: 11,223,372 ordinary shares of 5p each	<u>561,169</u>

Details of director's interests in the company are given in the directors' report on page 8.

**14. Share premium and reserves**

	<i>Share premium account</i> 2003 £	<i>Profit and loss account</i> 2003 £
At 10 January 2002	–	–
Retained loss for the period	–	(663,083)
Premium on share issues, less expenses	1,216,662	–
At 30 June 2003	<u>1,216,662</u>	<u>(663,083)</u>

**Notes (continued)**

**15. Provisions for liabilities and charges**

The deferred tax (assets)/liabilities not recognised, as calculated under Financial Reporting Standard 19 are as follows:

	<i>Unprovided 2003 £</i>
<b>Group</b>	
Difference between accumulated depreciation and capital allowances	8,748
Other timing differences	(202,401)
	<u>(193,653)</u>
	<i>Unprovided 2003 £</i>
<b>Company</b>	
Difference between accumulated depreciation and capital allowances	–
Other timing differences	(36,465)
	<u>(36,465)</u>

No deferred tax asset has been recognised as the directors do not believe that it is more probable than not that it will be recovered in the next twelve months.

**16. Commitments**

- (a) There were no capital commitments at the end of the financial period.
- (b) Annual commitments under non-cancellable operating leases are as follows:

	<i>Land and buildings 2003 £</i>	<i>Other 2003 £</i>
Operating leases which expire:		
Within one year	32,100	6,826
In the second to fifth years inclusive	–	62,055
	<u>32,100</u>	<u>68,881</u>

**Notes (continued)**

**17. Pension scheme**

The group operates a defined contribution pension scheme. The pension cost charge for the period includes contributions payable by the group to the scheme and amounted to £21,153.

Contributions amounting to £2,292 were unpaid at the year end and are included in creditors.

The group also pays into schemes outside of the group's defined contribution scheme for one director and one employee.

**18. Analysis of cash flows**

	2003 £
<b>Returns on investment and servicing of finance</b>	
Interest received	22,722
Interest paid	(30,845)
	<u>(8,123)</u>
<b>Capital expenditure and financial investment</b>	
Purchase of tangible fixed assets	(38,173)
	<u>(38,173)</u>
<b>Financing</b>	
Issue of ordinary share capital	2,002,000
Expenses paid in connection with share issue	(224,169)
Utilisation of revolving credit facility	2,050,000
	<u>3,827,831</u>

**Notes (continued)**

**19. Analysis of net debt**

	<i>At 10 January 2002 £</i>	<i>Cash flow £</i>	<i>At 30 June 2003 £</i>
Cash in hand, at bank	–	404,130	404,130
Bank overdraft	–	(31,628)	(31,628)
Utilisation of credit facility	–	(2,050,000)	(2,050,000)
<b>Total</b>	<u>–</u>	<u>(1,677,498)</u>	<u>(1,677,498)</u>

**20. Financial instruments**

The group's financial instruments comprise, bank borrowings and facilities, cash and short and medium term deposits. The group has various other financial instruments, including factored debt receivable, client advances, trade debtors and trade creditors, that arise directly from its operations which have not been included in the following disclosures.

The main risk arising from the group's financial instruments are interest rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board. It is and has been throughout the period under review the group's policy that no trading in financial instruments shall be undertaken.

***Interest rate risk***

The group debt represents bank borrowings at a rate based on LIBOR.

***Liquidity risk***

It is the group's policy to finance its business by means of internally generated funds, equity and facilities from its bankers. The facilities are regularly reviewed by the Board.

**21. Earnings per share**

The basic loss per share for the period to 30 June 2003 has been calculated from the loss on ordinary activities after taxation of £663,083 and on the 11,223,372 ordinary shares in issue at 30 June 2003.

The fully diluted loss per share for the period to 30 June 2003 is shown as the same value as basic earnings per share, since the average market value of the company's shares during the period is below the average option price and the options are therefore not considered to have a diluting effect.

**Notes** *(continued)*

**22. Related party disclosures**

At the year end W. H. Ireland Group plc, of whom Derek Ashford and Richard Lee are executive directors, owned 27.5% of the company's issued share capital.

During the period under review W. H. Ireland Limited, a subsidiary of W. H. Ireland Group plc, acted as broker to the company including work done in connection with the placing and the application for admission of the company's ordinary shares to the Alternative Investment Market. The total amount payable by the group for these services during the period to 30 June 2003 was £58,656.

During the period under review Halliwell Landau, of whom Clive Garston is a senior partner, acted as solicitors to the company in connection with the placing and the application for admission of the company's ordinary shares to the Alternative Investment Market. The total amount payable by the group for these services during the period to 30 June 2003 was £48,818.



## **Part IV**

### **Interim results for the six months ended 31 December 2003**

Set out below is the full text of the Chairman's statement and Interim results for the six months ended 31 December 2003, which were announced on 31 March 2004:

#### **CHAIRMAN'S STATEMENT**

##### **Results**

The results for the period ended 31 December 2003 show a loss before taxation of £166,000, a *marked improvement compared with a £440,000 loss for the six months to 31 December 2002*. In the same period turnover was £554,000 against £127,000 for the six months to 31 December 2002. Client turnover in the period amounted to £17.4m (31 December 2002: £4.6m).

As at 31 December 2003, the portfolio of clients stood at 81 clients (31 December 2002: 25 clients) with funds advanced of £3.4m (31 December 2002: £1.1m).

Four clients were removed from the portfolio in the course of the last six months, two having ceased trading and two were terminated due to increasing levels of non-factorable debt. In all instances, the current accounts were cleared without default.

Growth in overheads continues to be limited to that which is required to maintain our standard of risk management and safeguard the value in the balance sheet. At 31 December 2003, the company employed 15 staff (31 December 2002: 9 staff).

##### **Working capital facilities**

The facilities from Bank of Scotland of £4.5m are due to expire at the end of May 2004. Our bankers have confirmed that they see no reason why they would not provide an extension to the current facilities. Any such facilities would be subject to assessment on normal banking criteria and negotiations are continuing with a view to securing facilities beyond May 2004.

Of the total funding facility available to us, £2.4m (net) has been utilised.

##### **Risk management**

The portfolio continues to offer a good spread of industry sector and geographical presence. The maximum funds advanced to any one client at the end of the period constituted less than 7% of the total funds advanced.

A prerequisite of strong risk management is a high standard of underwriting. In spite of difficult market conditions, we have consistently maintained these standards and avoided the temptation to take on marginal business.

As new clients come on board so the operations team has been strengthened to avoid over burdening client managers and credit controllers. As at 31 December 2003, the operations department employed 9 staff including the operations director (31 December 2002: 3 staff).

##### **Current trading**

The first half of 2003/04 has delivered satisfactory progress towards our goal of profitability.

##### **Outlook**

The group continues to see a strong interest in its service and flexible approach. I firmly believe that the opportunities for success identified at the outset are still present. With increasing costs of borrowing and the financial stress this puts on the cash flows of highly geared small to medium sized businesses Ultimate Finance is well placed to bridge the cash flow gap for our current and future clients.

## **CHAIRMAN'S STATEMENT** *(continued)*

The improving trading performance is entirely the result of the ongoing efforts and dedication of the staff at Ultimate Finance. I would like to thank our Chief Executive, Brian Sumner and his staff for their efforts and continued commitment to the success of the group.

Our intention is, and always has been to build sustainable shareholder value. In this respect, I have confidence in the future of Ultimate Finance Group plc.

Clive R Garston  
*Chairman*

**Consolidated profit and loss account**

	<i>Half year to 31 Dec 03 £'000</i>	<i>Half year to 31 Dec 02 £'000</i>	<i>Year to 30 June 03 £'000</i>
Turnover	554	127	485
<b>Operating loss</b>	<b>(96)</b>	<b>(459)</b>	<b>(655)</b>
Net interest (payable)/receivable	(70)	19	(8)
<b>Loss before and after taxation</b>	<b>(166)</b>	<b>(440)</b>	<b>(663)</b>
Basic and fully diluted loss per share	<b>(1.48)p</b>	<b>(3.92)p</b>	<b>(5.91)p</b>

There are no recognised gains and losses in the period other than those reported in the profit and loss account.

**Consolidated balance sheet**

	<i>Half year to 31 Dec 03 £'000</i>	<i>Half year to 31 Dec 02 £'000</i>	<i>Year to 30 June 03 £'000</i>
<b>Fixed Assets</b>	<b>30</b>	<b>24</b>	<b>30</b>
<b>Current Assets</b>			
Debtors	3,383	1,110	2,818
Cash at bank	580	531	404
Other current assets	56	57	65
	<b>4,019</b>	<b>1,698</b>	<b>3,287</b>
<b>Current Liabilities</b>			
Amounts due in less than one year	(3,100)	(383)	(2,202)
<b>Net current assets</b>	<b>919</b>	<b>1,315</b>	<b>1,085</b>
<b>Net assets</b>	<b>949</b>	<b>1,339</b>	<b>1,115</b>
<b>Shareholders' funds</b>			
Called up share capital	561	561	561
Share premium account	1,217	1,218	1,217
Profit and loss account	(829)	(440)	(663)
<b>Total shareholders' funds</b>	<b>949</b>	<b>1,339</b>	<b>1,115</b>

**Reconciliation of movements in shareholders' funds**

	<i>Half year to 31 Dec 03 £'000</i>	<i>Half year to 31 Dec 02 £'000</i>	<i>Year to 30 June 03 £'000</i>
Opening shareholders' funds	1,115	—	—
New share capital subscribed (net of issue costs)	—	1,779	1,778
Loss for the period	(166)	(440)	(663)
<b>Closing shareholders' funds</b>	<b>949</b>	<b>1,339</b>	<b>1,115</b>

## Consolidated cash flow statement

	<i>Half year to 31 Dec 03 £'000</i>	<i>Half year to 31 Dec 02 £'000</i>	<i>Year to 30 June 03 £'000</i>
Net cash from operating activities	(616)	(1,539)	(3,409)
Returns on investments and servicing of finance	(70)	19	(8)
Capital expenditure	(6)	(28)	(38)
<b>Cash outflow before financing</b>	<b>(692)</b>	<b>(1,548)</b>	<b>(3,455)</b>
<b>Financing</b>			
Issue of shares	–	1,779	1,778
Increase in debt	900	300	2,050
<b>Increase in cash</b>	<b>208</b>	<b>531</b>	<b>373</b>

## Reconciliation of net cash flow to movement in net funds

	<i>Half year to 31 Dec 03 £'000</i>	<i>Half year to 31 Dec 02 £'000</i>	<i>Year to 30 June 03 £'000</i>
Increase in cash	208	531	373
Cash inflow from increase in debt	(900)	(300)	(2,050)
<b>Movement in net funds in the period</b>	<b>(692)</b>	<b>231</b>	<b>1,677</b>
Net debt at the beginning of the period	(1,677)	–	–
<b>Net (debt)/funds at the end of the period</b>	<b>(2,369)</b>	<b>231</b>	<b>(1,677)</b>

## Reconciliation of operating loss to net operating cash flows

	<i>Half year to 31 Dec 03 £'000</i>	<i>Half year to 31 Dec 02 £'000</i>	<i>Year to 30 June 03 £'000</i>
Operating loss	(96)	(459)	(655)
Depreciation charges	6	4	9
Increase in commitments to clients	(565)	(1,110)	(2,818)
Decrease/(Increase) in sundry debtors	10	(57)	(66)
Provisions against client commitments	31	10	31
(Decrease)/Increase in sundry creditors	(2)	73	90
<b>Net cash outflow from operating activities</b>	<b>(616)</b>	<b>(1,539)</b>	<b>(3,409)</b>

## Notes to the interim report

1. The results for the half year to 31 December 2003 and the comparative six month trading period to 31 December 2002 are unaudited and have been prepared using accounting policies consistent with those set out in the Directors' Report and Consolidated Financial Statements for the period ended 30 June 2003. The figures for the financial period ended 30 June 2003 are taken from the statutory accounts for that period, which have been delivered to the Registrar of Companies and upon which an unqualified audit report was given.
2. The basic loss per share has been calculated from the loss after taxation of £166,000 and on the 11,223,372 ordinary shares in issue at 31 December 2003. As the company has made a loss in the period the basic loss per share is the same as the fully diluted loss per share, therefore, the calculation does not take into consideration share options granted in the period.
3. These interim financial statements were approved by the board of directors on 30 March 2004.
4. Accounting policies  
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

### *Basis of preparation*

These unaudited financial statements do not constitute statutory accounts.

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

### *Fixed assets and depreciation*

Depreciation is provided to write-off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Office equipment incl. network equipment – 5 years

Computer equipment excl. network equipment – 3 years.

### *Turnover*

Turnover represents fees (excluding value added tax) and discount income. Fees are recognised when service is provided and discount income is recognised on funds advanced to clients as it becomes due.

### *Cash and liquid resources*

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

### *Introducer commissions*

Commissions payable to the introducers of business are charged to the profit and loss account over the minimum period of the service contract. In the event of early termination, any commission not already charged to the profit and loss account will be written off in full.

### *Net client commitments*

Amounts due to clients under recourse factoring agreements are offset against the related trade debtors. The resulting balance represents net client commitments and is included in debtors.

5. Interim Report  
The text of this report will be sent to shareholders.

## **Independent Review Report by KPMG Audit Plc to Ultimate Finance Group plc**

### **Introduction**

We have been engaged by the company to review the financial information set out on pages 3 to 5 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

### **Director's responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors.

### **Review work performed**

We conducted our review having regard to the guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the period ended 31 December 2003.

**KPMG Audit Plc**  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

30 April 2004

## Part V

### Additional Information

#### 1 Incorporation and share capital

1.1 The Company was incorporated in England & Wales on 10 January 2002 under the Act as a public company limited by shares with the name Hallco 694 PLC and with registration number 4350565. On 17 May 2002, the Company changed its name to Ultimate Finance Group plc. The principal legislation under which the Company operates is the Act and the regulations made thereunder

1.2 The table below sets out details of the authorised and issued share capital of the Company as at 28 April 2004 (the latest practicable date prior to the publication of this document) and as it will be immediately following the Offer for Subscription assuming that all the New UFG Shares are taken up in full:

<i>Ordinary shares of 5p each</i>	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>£</i>	<i>Number</i>	<i>£</i>	<i>Number</i>
At present	1,000,000	20,000,000	734,850.90	14,697,018
New UFG Shares	—	—	265,000.00	5,300,000
Revised Total	<u>1,000,000</u>	<u>20,000,000</u>	<u>999,850.90</u>	<u>19,997,018</u>

1.3 The New UFG Shares will be issued at a premium of 10p per share over the nominal value of 5p based on the Issue Price. The Existing Ordinary Shares are, and the New UFG Shares will be, in registered form. The New UFG Shares will be issued in certificated and uncertificated form. The share premium arising on the Offer for Subscription, assuming full subscription, amounts to approximately £530,000 in aggregate.

1.4 On 28 November 2003, by resolutions passed at the annual general meeting of the Company it was resolved that:

1.4.1 the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to exercise all and any powers of the Company to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal amount equal to £438,831 to such persons and at such times and upon such terms and conditions as they may determine (subject always to the articles of association of the Company). The authority and power expires (unless previously renewed, varied, or revoked by the Company in general meeting) at the earlier of the conclusion of the annual general meeting of the Company next following the passing of the resolution and 15 months from the date of the resolution (whichever is the earlier). The Directors may, at any time prior to the expiry of such period, make an offer or agreement which would or might require relevant securities to be allotted after expiry of such period and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority and power had not expired; and

1.4.2 the Directors be authorised and empowered pursuant to section 95 (1) of the Act to allot equity securities (as defined in section 94(2) of the Act) of the Company for cash pursuant to the Section 80 Authority as if section 89(1) of the Act did not apply to any such allotment save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred on them by the resolution had not expired and save that this authority and power is limited to:

- (i) the allotment of equity securities pursuant to a rights issue or similar offer to Shareholders where the equity securities respectively attributable to the interests

of all Shareholders are in proportion (as nearly as may be) to their respective holdings of Existing Ordinary Shares, but subject to the exclusions or other arrangements as the Directors of the Company deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of a regulatory body or stock exchange; and

- (i) the allotment (other than pursuant to (i) above) of equity securities up to an aggregate nominal value of £438,831 representing the nominal value of the current unissued ordinary share capital of the Company,

provided that this authority and power shall, unless previously renewed, varied or revoked, expire at the conclusion of the next annual general meeting of the Company or 15 months from the date of the passing of this resolution (whichever is the earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if this authority and power had not expired.

- 1.5 The provisions of section 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employee's share scheme as defined in section 743 of the Act) will apply to the authorised but unissued share capital of the Company to the extent not disappplied as described in paragraph 1.4 above.
- 1.6 In addition to the New UFG Shares issued pursuant to the Offer for Subscription, there will be outstanding options under the Share Option Schemes described in paragraph 10 of this Part V over 420,000 Ordinary Shares and warrants under the warrant instrument described in paragraph 11 of this Part V to subscribe for 561,165 Ordinary Shares. Resolutions are expected to be proposed at the next general meeting of the Company to increase the authorised share capital and enable new UFG shares to be issued on the exercise of options and warrants.
- 1.7 The liability of holders of Ordinary Shares in respect of such shares is limited.
- 1.8 There are no securities of the Company not representing share capital. There are no convertible securities of the Company.

## 2 Subsidiaries

The Company is the holding company of the following companies, all of which are wholly-owned by the Company and are incorporated and registered in England and Wales:

<i>Name</i>	<i>Issued and paid- up Share capital (£)</i>
Ultimate Finance Limited	2
Ultimate Cash Flow Limited	2
Ultimate Factors Limited	2
Ultimate Asset Finance Limited	2

## 3 Memorandum and articles of association

### 3.1 *Memorandum of association*

The objects of the Company are set out in full in clause 4 of its memorandum of association and include the carrying on of business as a general commercial company.



### 3.2 *Articles of association*

The articles of association of the Company (the “Articles”) which were adopted pursuant to a written resolution of the Company passed on 28 May 2002 contain, among other things, provisions to the following effect:

#### 3.2.1 *Voting rights*

Subject to any rights or restrictions attached to any shares (including as a result of unpaid calls) and/or as mentioned below, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative and is entitled to have a vote shall have one vote and, on a poll, every member who is present in person or by proxy and entitled to vote shall have one vote for every share of which he is the holder. Where, in respect of any shares, any registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company under section 212 of the Act, then not earlier than 14 days after service of such notice the shares in question may be disenfranchised.

#### 3.2.2 *Variation of rights*

Subject to the Act and every other statute for the time being in force concerning companies and affecting the Company (the “Statutes”), if at any time the capital of the Company is divided into different classes of shares, all or any of the rights and privileges attached to any class of share may be varied or abrogated either (i) in such a manner (if any) as may be provided by the rights attaching to such class or (ii) in the absence of any such provision, with the consent in writing of the holders of at least 75% of the nominal amount of the issued shares of the relevant class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of the relevant class. At any such separate meeting the holders present in person or by proxy of one third of the issued shares of the class in question shall be a quorum. Unless otherwise provided by the rights attaching to any shares, these rights shall be deemed to be varied by the creation or issue of further shares ranking in any respect in priority thereto.

#### 3.2.3 *Alteration of capital*

- (i) The Company may from time to time by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount, sub-divide all or any of its shares into shares of a smaller amount and cancel any shares not taken or agreed to be taken by any person.
- (ii) The Company may, subject to the Statutes, by special resolution reduce its share capital, any capital redemption reserve and any share premium account. Subject to and in accordance with the provisions of the Statutes, the Company may purchase its own shares (including redeemable shares).

#### 3.2.4 *Transfer of shares*

- (i) The Ordinary Shares are in registered form and may be certificated or uncertificated form. Ordinary Shares in uncertificated form may be transferred otherwise than by written instrument in accordance with the Statutes and relevant subordinate legislation. Transfers of shares in certificated form may be effected by instrument in writing in any usual or common form or in any other form acceptable to the Directors. Any instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the register of members.

- (ii) The Directors may refuse to register the transfer of a share which is in respect of a share which is not fully paid, or which is in favour of more than four transferees or which is in respect of more than one class of shares or which has not been presented for registration duly stamped accompanied by the share certificates for the shares to which the transfer relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.
- (iii) Where in respect of any shares any registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company under section 212 of the Act, then the Company may prohibit transfers of such shares otherwise than following a sale shown to the satisfaction of the Directors to be of the full legal and beneficial ownership of such shares at arm's length. The registration of transfers may be suspended by the Directors for any period not exceeding 30 days in a year.

### 3.2.5 Dividends and other distributions

- (i) Subject to the provisions of the Statutes, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but not exceeding the amount recommended by the Directors. The Directors may pay interim dividends if it appears to them that they are justified by the profits of the Company. Except as otherwise provided by the Articles or the rights attached to any shares issued by the Company, the holders of shares are entitled *pari passu* amongst themselves to share in the whole of the profits of the Company paid out as dividends and the whole of any surplus in the event of liquidation of the Company. A liquidator may, with the sanction of an extraordinary resolution, divide the assets among the members in *specie*. The Directors may, with the sanction of an ordinary resolution, offer the shareholders or any class of them (other than those not entitled to the relevant dividend or dividends) the right to elect to receive New UFG Shares, credited as fully paid, instead of cash in respect of the whole or part of any dividend or dividends which are the subject of the ordinary resolution.
- (ii) Where, in respect of any shares, any registered holder or any other person appearing to be interested in shares of the Company fails to comply with any notice given by the Company under section 212 of the Companies Act, then, provided that the shares concerned represent at least 0.25 per cent in nominal amount of the issued shares of the relevant class, the Company may withhold dividends on such shares.
- (iii) All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. Any dividend which is unclaimed for a period of 12 years from the date on which the dividend became due for payment shall be forfeited and cease to remain owing by the Company.

### 3.2.6 Borrowing powers

Subject to the provisions of the Act and as provided in the Articles, the Directors may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The Directors shall restrict the borrowings of the Company and the borrowings of any other companies within the Group so as to secure that the aggregate amount for the time being outstanding (after adjustments provided for in the Articles) at any one time owing by the Group in respect of monies borrowed, determined in accordance with the Articles, shall not without the previous sanction of an ordinary resolution of the Company

exceed an amount equal to (until the publication of the first audited accounts of the Company) £10,000,000 and (thereafter) 15 times the aggregate of the nominal amount paid up on the Company's issued share capital and the total amount standing to the credit of the capital and revenue reserve of the Group as shown in the latest audited balance sheet of the Group but adjusted as may be necessary to take account of such deductions as are specified in the Articles.

### *3.2.7 Constitution of Board of Directors*

The minimum number of Directors shall not be less than two and unless and until otherwise determined by the Company in general meeting there shall be no maximum limit on the number of Directors. No shareholder qualification is required of any Director.

### *3.2.8 Retirement of Directors by rotation*

The Articles do not contain any provision to exclude the operations of section 293(2) of the Act and, accordingly, special notice will be required of any resolution appointing or approving the appointment of a Director who has attained the age of 70.

At every annual general meeting of the Company, one third of the Directors or the number nearest to but not exceeding one third shall retire by rotation and be eligible for re-election. The Directors to retire will be those who have been longest in office, or, in the case of those who were appointed or re-appointed on the same day, will (unless they otherwise agree) be determined by lot.

### *3.2.8 Directors' fees, remuneration and expenses*

The aggregate fees payable to the Directors shall not exceed £100,000 per annum or such greater amount as may be determined by the Company in general meeting. Each Director may also be paid all travelling, hotel and other expenses properly incurred by him in connection with his attendance at meetings of the Directors of the Company or otherwise in the discharge of his duties as a Director. Any Director who makes any special journeys or who otherwise performs special services on behalf of the Company or its business may be paid such reasonable additional remuneration by way of salary, percentage of profits or otherwise as the Directors determine.

### *3.2.10 Permitted interests of the Director*

Subject to the provisions of the Statutes, a Director is not disqualified by his office from contracting with the Company in any manner, nor is any contract in which he is interested liable to be avoided, and any Director who is so interested is not liable to account to the Company for any profit realised by the contract, by reason of the Director holding that office or of the fiduciary relationship thereby established

A Director may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of Director and may act in a professional capacity for the Company (other than as auditor) on such terms as to tenure of office, remuneration or otherwise as the Directors may determine. A Director may also hold office as a director or other officer or be otherwise interested in any other company of which the Company is a member or in which the Company is otherwise interested and shall not be liable to account to the Company for any remuneration or other benefits received by him from that company.

### *3.2.11 Restrictions on voting by Directors*

Save as provided below, a Director shall not vote on or in respect of any contract or arrangement or any other proposal in which he has an interest which is to his knowledge a material interest otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company. A Director

shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:

- (a) giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (b) the giving of any security, guarantee or indemnity to a third party in respect of money lent obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or is to be interested as a holder of securities or as a participant in the undertaking or sub-underwriting thereof;
- (d) any proposal concerning any other company in which he does not to his knowledge hold directly or indirectly an interest in shares representing one per cent or more of any class of the equity share capital or voting rights;
- (e) any arrangement for the benefit of employees of the Company and its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and
- (f) any contract for the purchase or maintenance of insurance against any liability of any Directors.

#### 4 Directors' and other interests

- 4.1 The interests of the Directors (all of which are beneficial) in the issued share capital of the Company immediately prior to the Offer for Subscription, such interests being those which are required to be notified by each Director to the Company under the provisions of section 324 or 328 of the Act or which are required to be entered in the register of interests required to be maintained pursuant to section 325 of the Act or which are interests of persons connected with the Director within the meaning of section 346 of the Act, the existence of which is known or which could, with reasonable diligence, be ascertained by a Director will be, following completion of the Offer and assuming the Offer is fully subscribed, as follows:

<i>Name</i>	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of Existing Ordinary Shares</i>
C R Garston	191,810	1.3%
B R Sumner	1,335,345	9.1%
R J Pepler	934,160	6.4%
J H Coombes	800,010	5.4%
D F Ashford <sup>(2)</sup>	61,000	0.4%
R E M Lee <sup>(2)</sup>	61,000	0.4%
M J Harris <sup>(3)</sup>	—	0.0%

(1) DF Ashford and REM Lee are directors of W.H. Ireland Group, whose shareholding is shown in paragraph 4.2 below.

(2) MJ Harris is a director of Glenmore Investments Limited whose shareholding is shown in paragraph 4.2 below.

The following investors hold options under the Unapproved Scheme described in paragraph 10 of this Part V:

	<i>Date of grant</i>	<i>Options granted</i>	<i>Exercise price</i>	<i>Exercise dates</i>
Brian Sumner	7 June 2002	100,000	24p	7 December 2003 to 6 June 2009
Richard Pepler	7 June 2002	100,000	24p	7 December 2003 to 6 June 2009
Jeremy Coombes	7 June 2002	100,000	24p	7 December 2003 to 6 June 2009

In addition, the following investors hold options under the Approved Scheme described in paragraph 10 of this Part V:

	<i>Date of grant</i>	<i>Options granted</i>	<i>Exercise price</i>	<i>Exercise dates</i>
Brian Sumner	28 Nov 2003	25,000	23p	28 Nov 2006 to 27 Nov 2010
Richard Pepler	28 Nov 2003	25,000	23p	28 Nov 2006 to 27 Nov 2010
Jeremy Coombes	28 Nov 2003	25,000	23p	28 Nov 2006 to 27 Nov 2010

Save as disclosed in this paragraph 4, and in so far as the Company has the information, the Directors are not aware of any person or persons who either alone or, if connected, jointly following the completion of the Offer for Subscription will (directly or indirectly) exercise or could exercise control over the Company.

- 4.2 In addition to certain Directors' shareholdings disclosed in paragraph 4.1 above, in so far as is known to the Company, the following persons directly or indirectly, were interested in 3 per cent. or more of the Company's issued share capital, as at 28 April 2004 (the latest practicable date prior to the issue of this document):

<i>Name</i>	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of Existing Ordinary Shares capital</i>
W. H. Ireland Group	3,084,694	21.0%
Glenmore Investments Limited	1,459,035	9.9%

W. H. Ireland Group is deemed by the City Code on Takeovers and Mergers to be acting in concert with its directors and with discretionary investment management clients of its wholly owned stockbroking subsidiary, W. H. Ireland (together referred to as the "Concert Party"). After the Placing, the Concert Party held, in aggregate, 4,371,184 Existing Ordinary Shares representing 29.7% of the issued share capital of the Company.

- 4.3 Other than directorships of companies in the Group, the directorships and partnerships of the Directors currently held and held over the five years preceding the date of this document are set as follows:

<i>Director</i>	<i>Current directorships/ partnerships</i>	<i>Past directorships/ partnerships</i>
Clive Garston	Halliwell Landau Halliwell Landau Limited H.L. Nominees Limited Halliwells Limited South Manchester Securities Limited Newpart Wythenshawe Hospital Transplant Fund Limited HL Directors Limited HL Secretaries Limited Hallco 171 Limited Gardler Limited Bollington Estates Limited  Shinton Limited Sports & Leisure Group PLC Manchester Syndicates 14 Limited Manchester Syndicates 15 Limited Halliwells Halliwell Administration Limited Halliwell Consulting Limited Halliwell Executive Compensation Limited	Glyn Webb Group Limited Glyn Webb Wallpapers Limited Glyn Webb Limited Inhoco 2335 Limited Healthcare Holdings PLC The Intercare Group Limited Timeframed Limited The Niche Group PLC
B Sumner	Global Ski (Holdings) Limited	Keystone Leisure (Scotland) Limited New Court Commercial Finance Limited Focal Point (Media) plc Vision Network Television Limited Focal Point (Fylde) Limited
R Pepler	—	Bibby Factors (Bristol) Limited
J Coombes	—	Bibby Factors (Bristol) Limited

<i>Director</i>	<i>Current directorships/ partnerships</i>	<i>Past directorships/ partnerships</i>
D F Ashford	W.H. Ireland Limited W.H. Ireland Nominees Limited Fitel Nominees Limited W.H. Ireland Trustee Limited W.H. Ireland Group plc WHI Leasing Limited W.H. Ireland (Financial Services) Limited W. H. Ireland (Stockbrokers) Limited Readycount Limited Stockholm Investments Limited Catillon Limited	Hallco 557 PLC
R E M Lee	Richard E. M. Lee and Partners Limited W.H. Ireland Group plc Prime People plc Grandheron Limited W.H. Ireland Limited W.H. Limited (Financial Services) Limited Freedom Finance plc Freedom Finance Holdings Limited W. H. Ireland (Stockbrokers) Limited Readycount Limited	Hunters Leisure plc The Intercare Group Limited 7 Group plc Cameron (UK) Public Limited Company Hallco 557 PLC Qui Limited
M J Harris	Glenmore Investments Limited Royal Stafford Tableware Limited Glenmore Property Holdings Limited Glenmore Leasing Limited Northover & Gilbert Limited Glenmore Factors Limited Bristol & West Investments plc Mede House Limited GCB Properties Limited Glenmore Group Limited Viceroy Capital plc Glenmore (Telford Road Salisbury) Management Limited	Torq Limited

4.4 Save as disclosed in paragraph 4.6 below, none of the Directors:

4.4.1 has any unspent convictions in relation to indictable offences;

4.4.2 has been declared bankrupt or been subject to an individual voluntary arrangement;

- 4.4.3 has been involved in any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors of any company where such Director was a director at the time of or within the 12 months preceding such events;
- 4.4.4 has been involved in any compulsory liquidation, administration or partnership voluntary arrangement of any partnership where he was a partner at the time of or within the 12 months preceding such events;
- 4.4.5 has been involved in receivership of any of his assets or of a partnership of which he was a partner at the time of or within the 12 months preceding such events;
- 4.4.6 has been the subject of any public criticism by statutory or regulatory authorities (including recognised professional bodies), and whether such Director has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company; or
- 4.4.7 has had a name other than his present name.
- 4.5 (i) R E M Lee was a non-executive director of Response Group Limited, which went into receivership in 1991 and was dissolved on 08 May 2001. R E M Lee resigned as a director of Gaynor Group plc on 11 February 1991 and the company went into receivership in 1993 and was dissolved on 28 November 1995. Until January 2001, he was also a non-executive director of Cameron (UK) Public Limited Company, which went into administration in July 2001.
- (ii) B R Sumner was a non-executive director of Focal Point (Media) plc which went into voluntary liquidation in April 2001 and of two of its subsidiaries, Focal Point (Fylde) Limited which went into administration on 22 February 2001 and was compulsorily wound up on 6 June 2003 and Vision Network Television Limited. He was also a director of Keystone Leisure (Scotland) Limited which went into voluntary liquidation in October 2001.
- (iii) C R Garston resigned as a director of C&C Express Limited on 2 February 1993. This company went into voluntary liquidation on 18 November 1993. He was a director of Timeframed Limited which went into creditors' voluntary liquidation and was dissolved on 6 February 2004.
- (iv) M J Harris was a director of Torq Limited as the representative of a previous employer until the company was sold. Within 12 months of the sale the company was put into receivership and was dissolved on 26 May 1999.
- 4.6 C R Garston is a partner of Halliwell Landau which will be receiving a fee from the Company in connection with the Placing and the Offer for Subscription. D F Ashford and R E M Lee are directors of W.H. Ireland Group, the parent company of W.H. Ireland, which will also be receiving a fee and commission from the Company in connection with the Placing and the Offer for Subscription.
- 4.7 There are no outstanding loans or guarantees provided by any member of the Group to or for the benefit of any of the Directors.
- 4.8 Save for the interests of the Directors in the transactions described in this document, no Director has or has had any interest in any transaction which is or was significant in relation to the business of the Group and which was effected since 30 June 2003, the date to which the Company's latest audited accounts were drawn up.

## **5 Directors' service contracts**

- 5.1 On 6 June 2002, each of the executive Directors entered into a new service agreement with the Company. Each executive Director's service agreement is for a fixed period of two years from 6 June 2002, and is thereafter terminable by either him giving six months' or the



Company on giving no less than 12 months' prior written notice. The Company may, at its discretion, terminate the service agreements forthwith at any time by making a payment in lieu of notice.

In addition, the service agreements provide for the following:

<i>Director</i>	<i>Annual salary</i>	<i>Position</i>
B Sumner	£73,500	Chief Executive
R Pepler	£63,000	Managing Director
J Coombes	£63,000	Operations Director

The annual salaries of the executive Directors are subject to review by the Remuneration Committee of the Board.

The Company operates an annual discretionary bonus scheme with bonuses to be awarded by the Remuneration Committee. The Company contributes a sum equal to 15% of the annual salary (in respect of B Sumner) and 10% of the annual salary (in respect of each of Messrs Pepler and Coombes) to a personal pension scheme on behalf of each of the executive Directors.

The Company is obliged to pay the premiums necessary to provide the executive Directors (including spouse and dependant children) private health care insurance. In addition, the Director is entitled to participate, at the Company's expense, in a permanent health insurance scheme.

The executive Directors are entitled to a monthly allowance in respect of a car or the provision of a company car. The Company is also obliged to provide the executive Directors with a mobile phone and meet all costs incurred in respect of business use.

Each service contract contains a confidentiality clause and restrictive covenants on the part of the relevant Director that, during the agreement and for a period of 6 months (in the case of non-competition) and 12 months (in the case of non-solicitation) thereafter, the Director shall not, without prior board approval, be concerned with any business that competes with the Group nor solicit any clients or employees of the Group.

- 5.2 Under the terms of their appointments CR Garston receives a fee of £15,000 for his services as chairman and R E M Lee, D F Ashford and M Harris are each entitled to an annual fee of £10,000 for serving as non executive directors. Their appointments are terminable by either the Company or the relevant non-executive Director giving to the other not less than 6 months written notice, subject to the Company's articles of association.
- 5.3 There is no arrangement under which any Director has waived or agreed to waive future emoluments.
- 5.4 Save as disclosed in this paragraph 5, there are no existing or proposed service or consultancy agreements between any Director and any member of the Group.
- 5.5 The aggregate remuneration paid and benefits in kind granted to the Directors in the financial period ended 30 June 2003 amounted to £311,587.
- 5.6 The aggregate remuneration to be paid and benefits in kind to be granted to the Directors in the financial year ending 30 June 2004 are expected to be approximately £270,000 under the arrangements in force at the date of this document.

## **6 Taxation**

**The following summary is based on the law and practice currently in force in the United Kingdom. The comments are of a general nature only, are not a full description of all relevant tax considerations and may not be applicable to persons who do not hold their New UFG Shares as investments. Any person who is in any doubt as to his tax position**

**should consult a professional adviser concerning his tax position in respect of or relating to the acquisition, holding or disposal of New UFG Shares.**

#### **6.1 *Taxation of dividends***

Under the current UK taxation legislation, no tax will be withheld from dividend payments by the Company.

An individual resident in the UK for tax purposes who receives (or is treated as receiving) a dividend from the Company will generally receive a credit against his or her UK tax liability in respect of such dividend equal to one-ninth of the cash dividend. Holders of New UFG Shares ("Shareholders") who are UK resident individuals and who are not liable to income tax in respect of the gross dividend will not, save in the case of person holding the relevant New UFG Shares through an Individual Savings Account (for which special rules apply), be entitled to repayment of the tax credit. In the case of UK resident individual Shareholders who are liable to income tax at only the lower or basic rate, the tax credit will satisfy in full such holders' liability to income tax on the dividend. UK resident individual Shareholders who are liable to income tax at the higher rate will pay tax at the rate of 32.5 per cent. of the gross dividend but will be able to set the tax credit off against part of this liability.

A UK resident corporate Shareholder will generally not be liable to UK corporation tax on any dividend received. Such Shareholders will not be able to claim repayment of the tax credits attaching to dividends.

A UK resident pension fund will not be entitled to reclaim the tax credit on dividends paid by the Company.

Individual Shareholders who are resident for tax purposes outside of the United Kingdom, but who are Commonwealth citizens, European Economic Area nationals, residents of the Isle of Man or the Channel Islands or certain other persons will normally be entitled to a tax credit, as if they were resident for tax purposes in the United Kingdom, which they may set off against their total United Kingdom income tax liability. Such Shareholders will generally not be able to claim repayment of the tax credit from the Inland Revenue.

#### **6.2 *Taxation of capital gains ("CGT")***

Individual Shareholders who are resident or ordinarily resident in the UK will be liable to CGT on any disposal of the New UFG Shares, subject to any allowances, reliefs or exemptions that may be available to them. UK resident corporate Shareholders are liable to CGT on any disposal or deemed disposal of their New UFG Shares, subject to certain reliefs and exemptions.

Changes to the structure of capital gains tax for individuals, trustees and personal representatives were introduced on 6 April 1998, including changes to the rules relating to the holding of shares. A disposal of shares is generally treated on a LIFO (last in, first out) basis for the purpose of calculating gains chargeable to tax. In addition, gains made by individuals, trustees and personal representatives after 5 April 1998 may qualify for taper relief. This relief reduces the amount of a chargeable gain on disposal, depending on the length of time the shares have been held since 6 April 1998.

#### **6.3 *Inheritance tax ("IHT")***

Shares in companies such as the Company qualify for 100% IHT Business Property Relief, provided that the Company does not undertake any non-qualifying activities and provided they have been held for two years prior to an event giving rise to a potential charge to IHT. If an individual shareholder makes a lifetime gift of shares, or dies whilst still the holder of the shares, IHT may not be payable provided the shares have been held for at least two years prior to the gift or death. In the event of a lifetime gift, the transferee may need to

retain the shares for up to seven years to ensure Business Property Relief remains available to the transferor.

#### 6.4 *Stamp duty and stamp duty reserve tax ("SDRT")*

Subject to certain exemptions, a transfer on sale of New UFG Shares in registered form will attract ad valorem UK stamp duty at the rate of 0.5 per cent. (rounded up to the nearest £5) of the amount or value of the consideration for the transfer. Generally, ad valorem stamp duty applies neither to gifts nor to a transfer from a nominee to the beneficial owner, although in cases in transfers where no *ad valorem* stamp duty arises, a fixed UK stamp duty of £5 may be payable. SDRT at a rate of 0.5 per cent. of the amount or value of the consideration for the transfer may be payable on an unconditional agreement to transfer New UFG Shares. If, within, six years of the date of such an agreement, an instrument transferring the New UFG Shares is executed and stamped, SDRT paid may be repaid or, if it has not been paid, the liability to pay such tax (but not necessarily interest and penalties) would be cancelled. SDRT is chargeable whether the agreement is made or effected in the UK or elsewhere and whether or not any party is resident or situated in the UK.

Special rules apply in connection with clearance services and depositary receipts.

### 7 **Material contracts**

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

- 7.1 the Offer Agreement dated 28 April 2004 between (1) the Company and, (2) Dawnay Day. The Offer is not underwritten. Pursuant to the Offer Agreement, the Company has given certain warranties and indemnities to Dawnay Day regarding, *inter alia*, the accuracy of the information in this document. In addition, the Company has agreed to perform certain obligations. The Offer Agreement is conditional, *inter alia*, on Admission.

Dawnay Day is entitled in certain circumstances to terminate the Offer Agreement prior to Admission, including, *inter alia*, for breach of any of the warranties which is material in the context of the Issue. Dawnay Day is entitled to commission at a rate of 2 per cent. of the value (at the Issue Price) of New UFG Shares subscribed for by offerees introduced by Dawnay Day. W.H. Ireland is entitled to a commission at a rate of 2 per cent. of the value (at the Issue Price) of all the New UFG Shares and 3 per cent. of the value (at the Issue Price) of New UFG Shares subscribed for by offerees introduced by W.H. Ireland;

- 7.2 an agreement dated 7 June 2002 and made between (1) the Company and (2) W.H. Ireland Group, Glenmore Investments Limited ("Glenmore") and the Directors ("the Restricted Shareholders"), whereby the Restricted Shareholders agreed not to dispose of or otherwise deal in the Ordinary Shares held by them for a period of two years (or, in the case of Glenmore, one year) from 12 June 2002. These restrictions will not apply in the event of a takeover or in certain other exceptional circumstances;

- 7.3 a placing agreement dated 7 June 2002 between (1) the Company, (2) the Directors, (3) W.H. Ireland and (4) Dawnay Day, under which W.H. Ireland agreed to use its reasonable endeavours to procure subscribers for certain new Ordinary Shares in the capital of the Company in connection with admission of the Company's ordinary shares to AIM. Dawnay Day was entitled to commission at a rate of 2 per cent. of the value (at the admission price of 24p per Ordinary Share) of placing shares subscribed for by placees introduced by Dawnay Day and 1 per cent. of such value of placing shares subscribed for by placees introduced by intermediaries procured by Dawnay Day. W.H. Ireland was entitled to a commission at a rate of 1 per cent. of the value (at the admission price of 24p per Ordinary Share) of all the placing shares. Recognised financial intermediaries were entitled to a

commission of 3 per cent. of the value (at the admission price of 24p per Ordinary Share) of placing shares subscribed for by placees introduced by them;

- 7.4 a relationship deed dated 7 June 2002 between (1) the Company and (2) the executive Directors and W.H. Ireland Group who have interests in more than 25 per cent. of the issued share capital of the Company (the "Relevant Shareholders") under which the Relevant Shareholders have agreed that the Company must be able to act without the Relevant Shareholders acting in concert (as that term is defined in the City Code of Takeovers and Mergers) in order to exert control over the decisions and actions of the Company. The deed contains, *inter alia*, the following undertakings on behalf of each of the Relevant Shareholders:

- (i) that he will not, and will procure that none of his Associates (as defined in the relationship deed) shall, act together whether by the exercise at any general meeting of the Company of any voting rights attached to the shares held by him or otherwise to seek to interfere with the independent operation of the board or to seek to appoint a majority of directors to the board;
- (ii) that any transaction between him and the Company and to procure that any transaction between his Associates and the Company shall be at arm's length and on a normal commercial basis as approved by the Committee (as defined in the deed); and
- (iii) not to vote on any matter, and procure that his Associates do not vote on any matter, which is subject to a conflict of interest between such persons and the Company or any of its subsidiaries and to procure that any director of the Company appointed at the direction of or on behalf of a Relevant Shareholder or any of their Associates shall not vote or participate in any board meeting on such matter.

Further, the deed will terminate and cease to have effect at such time as the Relevant Shareholders exercise control of less than 25 per cent. of the voting rights attaching to the Ordinary Shares in issue.

## **8 Working capital**

The Directors are of the opinion having made due and careful enquiry that, taking into account the existing bank facilities, the proposed new facility and the minimum proceeds of the Offer for Subscription available to the Group, the Group will have sufficient working capital for its present requirements, that is, for at least 12 months from Admission.

## **9 Litigation**

There are no legal or arbitration proceedings in which any member of the Group is involved or of which any member of the Group is aware are pending or threatened by or against the Company which may have or have had since its incorporation a significant effect on the Group's financial or trading position.

## **10 Options**

The Company has adopted an Inland Revenue approved company share ownership plan ("CSOP") and a non-Inland Revenue approved share option scheme ("the Unapproved Scheme"). The CSOP is an Inland Revenue approved scheme, pursuant to the provisions of the Schedule 9 to the Income & Corporation Taxes Act 1988 (the "Taxes Act"). The details of the CSOP and the Unapproved Scheme (together "the Schemes") are summarised below. Both the CSOP and the Unapproved Scheme share a number of common features.

Both of the Schemes are administered by the Remuneration Committee of the Board ("the Committee"). The provisions of the Schemes may be altered by the Committee, but their basic structure (and, in particular, the limitations on the number of Ordinary Shares which may be issued thereunder as indicated below and any amendment to the advantage of participants) will not be alterable without the prior sanction of the Company in general

meeting and, in addition, any alteration to the CSOP will also be conditional on the prior approval of the Inland Revenue.

Grants of options under the Schemes may be made to employees and full time directors of the Company, or any nominated subsidiary of the Company (a "Participating Company"), on a discretionary basis by the Committee. Such options will not be transferable and may only be exercised by the participant or, in the event of death, a personal representative of a participant.

Options granted under the Schemes will entitle the participant to acquire Ordinary Shares at a price determined in accordance with the rules of the Schemes. The options will be exercisable within a period of seven years from the date of grant by a participant who remains a director or employee of a Participating Company and subject to the satisfaction of the conditions referred below.

Ordinary Shares issued and allotted pursuant to both of the schemes will rank *pari passu* in all respects with Ordinary UFG Shares then in issue except for dividends and other entitlements arising by reference to a date prior to the date on which the relevant option is exercised.

Options granted under both of the Schemes may be exercised earlier than the earliest permissible exercise date (described in more detail below) in each case in certain special circumstances such as death, cessation of employment on account of injury or disability, redundancy or the sale of the business or company for which the participant works. In addition, such early exercise provisions will apply where cessation of a participant's employment arises through pregnancy or early retirement or in other circumstances where the Committee in its absolute discretion decides that early exercise may take place.

In the event of an amalgamation, reconstruction or takeover of the Company, options granted under the Schemes may either be exchanged for options over shares in the acquiring company, or a company associated with the acquiring company, if the acquiring company so consents, or exercised within certain specified periods after the occurrence of such an event. Options granted under the Schemes may also be exercised in the event of the voluntary winding up of the Company.

In the event of any capitalisation or rights issue by the Company, or of any consolidation, sub-division or reduction of its share capital, or, if its shareholders approve in general meeting, any other variation in its share capital, the number of shares subject to any option and/or the exercise price may be adjusted by the Committee, with, in the case of the CSOP, the prior approval of the Inland Revenue, subject to the auditors of the Company for the time being, confirming in writing that such adjustment is, in their opinion, fair and reasonable.

The Committee shall specify objective conditions providing for events subject to the occurrence of which, the exercise of any option granted under the Schemes is dependent. In relation to the initial tranche of options granted under the Unapproved Scheme (being those options specified in paragraph 4.1 of this Part V) ("the Initial Tranche"), the condition to be satisfied before an option can be exercised will be the attainment by the Company, in any accounting period while the option is subsisting, of profit before tax, as disclosed in its audited profit and loss account for that accounting period, of at least £1,000,000.

In any ten year period, not more than ten per cent of the issued ordinary share capital of the Company for the time being may, in aggregate, be allocated under the Schemes, or any other employees' share option scheme adopted by the Company.

For the purposes of the above limit, options which lapse in accordance with the rules of the relevant scheme or are released without being exercised will not be taken into account. References to shares being "allocated" under the Schemes refer to unissued Ordinary Shares being placed under option.

(i) *The CSOP*

The CSOP has the following additional features:

- (a) options granted under the CSOP may ordinarily only be exercised on or after the third anniversary of the date of grant, save where early option exercise is permitted in the exceptional circumstances referred to above.
- (b) each participant's personal participation under the CSOP will be limited so that no options may be granted to an individual under the CSOP (or any other discretionary share option scheme approved by the Inland Revenue under Schedule 9 to the Taxes Act) where the market value of the Ordinary Shares to be placed under option, when aggregated with the market value of all shares over which CSOP or other Revenue approved discretionary share scheme options have been granted to that individual in the preceding ten years would exceed £30,000 (or any other limit which may be imposed from time to time for individual participation under such Inland Revenue approved schemes). In calculating such limit, however, no account shall be taken of any options which have been exercised or which have been released or lapsed without being exercised.
- (c) No CSOP option may be granted to an individual who, at any time in the preceding 12 months, has had a material interest in the Company when the Company was a close company.
- (d) In relation to options granted under the CSOP, the price payable on the exercise of the option will be a price not less than the market value of the Ordinary Shares as determined in accordance with the rules of the CSOP.

(ii) *The Unapproved Scheme*

The Unapproved Scheme has the following additional features:

- (a) Options granted under the unapproved scheme may be exercised no earlier than *eighteen months following the date of grant*. Such exercise is conditional upon the satisfaction of the relevant performance criteria. Options may be exercised earlier than the expiry of three years in the special circumstances mentioned above.
- (b) The limits on individual participation applicable to CSOP options do not apply in relation to options granted under the Unapproved Scheme.
- (c) There is no restriction preventing persons having had a material interest in a close company from being granted options under the Unapproved Scheme.
- (d) The option exercise price for options granted under the Unapproved Scheme will generally be the market value of the Ordinary Shares placed under option at the date of option grant. In respect of the Initial Tranche the exercise price is 24p per Ordinary Share.
- (e) No option may be exercised under the Unapproved Scheme unless the participant has entered into arrangements satisfactory to the Committee to reimburse the Company for any income tax payable under the PAYE system and employee's national insurance contributions in each case consequent upon the exercise of the option and, in addition, if required, unless the participant has agreed to bear any employer's national insurance contributions arising in respect of such option exercise.

## 11 Warrants

The Company adopted a warrant instrument (the “Instrument”) and constituted warrants thereunder. The following is a summary of the terms and conditions attaching to those warrants:

(i) *Issue and eligibility of warrants*

The Instrument constitutes 561,165 warrants initially issuable as to 112,233 to Dawnay Day and as to 448,932 to W. H. Ireland Group. Each warrant entitles the holder to subscribe for one Ordinary Share at the 24p per UFG Share. The warrants are transferable.

(ii) *When warrants may be exercised*

The warrants may be exercised between eighteen months following the date of issue and the seventh anniversary of the date of issue.

(iii) *Adjustment and amendment*

The Instrument contains provisions for adjustment to the number of shares and subscriptions upon capitalisation of reserves and for appropriate adjustments to the subscription price on a rights issue or on a sub-division or consolidation of share capital. Any offer or invitation by the Company to the holders of its ordinary share capital shall apply to the holders of the warrants.

The rights and privileges of the holders of the warrants may be altered or abrogated with the consent of the holders of three-quarters of the warrants in issue by way of an extraordinary resolution.

(iv) *Rights of the warrant holders*

For so long as any of the subscription rights under the warrants remain exercisable, the Company will not without such sanction as if required for a modification of the rights of the warrant holders:

- (a) alter the rights attached to the Ordinary Shares, or to any class of shares other than the Ordinary Shares, so it has more favourable rights than those attached to the Ordinary Shares;
- (b) issue any securities by way of capitalisation of reserves, share premium account or undistributed profits other than Ordinary Shares credited as fully paid up;
- (c) make any distribution out of capital profits or capital reserves otherwise and by way of a capitalisation of such profits or reserves;
- (d) issue any Ordinary Shares which as regard rights to voting, dividends or capital have more favourable rights than those attached to the Ordinary Shares in issue at the date of issue of the warrants;
- (e) modify the Ordinary Shares or change the accounting reference date of the Company;
- (f) issue any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves if as a result the Company would on any subsequent exercise of the warrants be obliged to issue Ordinary Shares at a discount to nominal value; or
- (g) reduce its share capital (except as authorised by statute).

If a general offer is made to the holders of the Ordinary Shares, the Company shall use its best endeavours to procure a comparable offer for warrant holders.

## 12 General

12.1 Other than as described in this document, there has been no significant change in the trading or financial position or prospects of the Company since 30 June 2003, being the date to which the Company's latest audited accounts were drawn up.

12.2 It is estimated that the total maximum expenses payable by the Company in connection with the Issue will amount to approximately £140,000 (including value added tax).

12.3 The subscription list shall open at 10.00 a.m. on 21 May 2004 and may be closed at any time thereafter but not later than 3.00 p.m. on 21 May 2004 unless extended by the Directors to a date and time not later than 5.00 p.m. on 28 May 2004.

12.4 The Company's audited accounts for the year ended 30 June 2003 have been delivered to the Registrar of Companies. The accounts of the Company for the year ended 30 June 2003 were audited without qualification. The auditors of Ultimate Finance are KPMG Audit Plc, 1 Embankment, Neville Street, Leeds LS1 4DW.

12.5 KPMG Audit Plc has given and not withdrawn its written consent to the inclusion in this document of its report set out in Part III and Part IV of this document and the references thereto and to its name in the form and context in which they appear.

12.6 With reference to and for the purposes of paragraph 45 (7) (b) of Schedule 1 to the POS Regulations, KPMG Audit Plc accepts responsibility in relation to this document for its report, set out in Part III and Part IV of this document.

12.7 Save as disclosed in this document:

- (i) there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business;
- (ii) the Directors are not aware of any exceptional factors which have influenced the Company's activities;
- (iii) the Group has no investments in progress which are significant.

12.8 In the Directors' opinion, the minimum amount to be raised from the Offer for Subscription is £230,000. This minimum amount for the purposes set out in paragraph 21(a) of Schedule 1 to the POS Regulations is £230,000, which will be applied as follows:

(i) purchase price of property	£nil
(ii) commissions and expenses payable under the Offer for Subscription	£125,000
(iii) repayment of monies borrowed in respect of (i) and (ii) above	£nil
(iv) working capital	£105,000

There are no amounts to be provided in respect of the matters mentioned above otherwise than out of Offer for Subscription or from the Company's existing resources.

12.9 There have been no payments to promoters of the Company in the two years prior to the date of this document and no fees have been paid or benefits provided in the 12 months preceding the date of this document (other than to trade suppliers and to professional advisers whose fees are taken into account in the estimate of expenses referred to in paragraph 12.2 above) in the sum of £10,000 or more in cash or in kind.

12.10 The following table shows the middle market quotations for an Existing Ordinary Share derived from the AIM Appendix to the Daily Official List for the first dealing day in each of the six months prior to the date of this document, and on the 14 April 2004 (being the last dealing date prior to the announcement of the Offer for Subscription) and 28 April 2004 (being the latest practicable date prior to the printing of this document):



<i>Date</i>	<i>Price</i>
3 November 2003	23.5p
1 December 2003	23p
2 January 2004	21p
2 February 2004	21p
1 March 2004	18.5p
1 April 2004	18.5p
14 April 2004	24p
28 April 2004	18.5p

- 12.11 No person has been authorised to give any information or make any representation in connection with the Offer for Subscription, other than as contained in this document or the Application Form or in any supplementary prospectus or announcement relating to the Offer for Subscription which may be published or made by the Company, and, if given or made other than as aforesaid, such information or representation must not be relied upon as having been authorised by the Company, the Directors, Dawnay Day, W.H. Ireland or any of them.
- 12.12 Dawnay Day, which is regulated by the Financial Services Authority, has given and has not withdrawn its written consent to the publication of this document containing references to its name in the form and context in which they appear. Dawnay Day is acting exclusively for Ultimate Finance as financial adviser in connection with the Offer for Subscription and not for any other persons. Dawnay Day will not be responsible to any persons other than Ultimate Finance for providing the protections afforded to customers of Dawnay Day or for advising any such persons in connection with the Offer for Subscription.
- 12.13 W.H. Ireland is acting exclusively for Ultimate Finance in connection with the Offer for Subscription and not for any other persons. W.H. Ireland will not be responsible to any persons other than Ultimate Finance for providing the protections afforded to customers of W.H. Ireland or for advising any such persons in connection with the Offer for Subscription.

### **13 Availability of the Prospectus**

Copies of this document will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) for a period of one month from Admission at the offices of Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA.

Dated 30 April 2004

**Part VI**

**Procedure for Application**

The following instructions should be read in conjunction with the Application Form.

**1. Insert in Box 1 (in figures) the number of New UFG Shares for which you are applying**

Applications must be for a minimum of 2,000 New UFG Shares and thereafter in multiples of 1,000 New UFG Shares. Applications for any other numbers or multiples of shares may be rejected in whole or in part.

**2. Insert in Box 2 (in figures) the exact amount of your payment**

The amount of your cheque or bankers draft should be 15p multiplied by the number of New UFG Shares inserted in Box 1.

**3. Sign and date the Application Form in Box 3**

The Application Form may be signed by someone else on your behalf (and/or on behalf of any joint applicant(s)) if duly authorised by power of attorney to do so, but the power of attorney pursuant to which this is done (or a copy certified by a solicitor) must be enclosed. A corporation should sign under the hand of a duly authorised officer whose representative capacity must be stated.

If you are applying for the benefit of a person under the age of 18, you, rather than that person, must sign the Application Form.

**4. Insert your full name and address in BLOCK CAPITALS in Box 4**

Applications may only be made by persons aged 18 or over. However, a parent, grandparent or guardian of a person under 18 may apply for the benefit of that minor. If you wish to make an application for a minor in Box 4 please insert your own full name, followed by the letters "A/C" and then by the full initials of the minor. If you make an application for a child in this way, you may also apply separately for your own benefit. See notes 6 and 7 for joint applications.

Warning: Applications will not be accepted in names that are, or appear to be, fictitious, or which are otherwise unsuitable for share registration purposes.

**5. You must pin to the completed Application Form a single cheque or banker's draft for the full amount payable**

Your cheque or banker's draft must be payable to "Neville Registrars a/c Ultimate Finance" for the exact amount payable on application inserted in Box 2 and should be crossed "A/C Payee".

No receipt will be issued for this payment which must be solely for this application.

Cheques or banker's drafts must be drawn in sterling on a bank in the British Isles or a branch of such bank, which is either a member of the Cheque & Credit Clearing Company Limited or the CHAPS & Town Clearing Company Limited or a member of the Committee of Scottish or Belfast Clearing Houses or which has arranged for cheques and banker's drafts to be cleared through the facilities provided for the members of either of those companies or that committee, and must bear the appropriate sorting code in the top right hand corner.

Applications may be accompanied by a cheque or banker's draft drawn by someone other than the applicant(s), but any monies to be returned will be sent by crossed cheque in favour of the person named in Box 4 and to the address in Box 4.

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**6. *You may apply jointly with up to three other persons***

If you do so, you must then arrange for the Application Form to be completed by or on behalf of each joint applicant (up to a maximum of three other persons, in addition to the first applicant). Their full name and addresses should be put in BLOCK CAPITALS in Box 7. Letters of acceptance in the names of joint applicants will be sent to the applicant named in Box 4.

**7. *Box 8 must be signed by or on behalf of each joint applicant*** (other than the first applicant who should sign in Box 3 and complete Box 4)

If any individual is signing on behalf of any joint applicant(s), the power(s) of attorney (or a copy (copies) certified by a solicitor) must be enclosed with the Application Form.

**You must send the completed Application Form, together with the cheque or banker's draft by post or by hand to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA so as to arrive not later than 10.00 a.m. on 21 May 2004.**

**If you post your Application Form, you are recommended to use first class post and to allow at least two working days for delivery.**

Set out below is a ready reckoner to assist you in your application:

<i>Amount subscribed</i>	<i>Number of New UFG Shares</i>
£300	2,000
£450	3,000
£750	5,000
£1,500	10,000
£3,000	20,000
£7,500	50,000
£15,000	100,000

# Ultimate Finance Group plc

## OFFER APPLICATION FORM

Before making any application to acquire shares, you are recommended to consult an independent financial adviser authorised under the Financial Services and Markets Act 2000.

Offer for subscription of up to 5,300,000 New UFG Shares of 5p each in Ultimate Finance Group plc ("New UFG Shares") at 15p per share, payable in full on application.

1. I/We apply for the allotment to me/us of  
See note 1.

New UFG Shares

FOR OFFICIAL  
USE ONLY

at the price of 15p per share (or such lesser number of New UFG Shares for which this application is accepted) payable in full on application on the terms and conditions set out in this Application Form and the prospectus dated 30 April 2004 and subject to the Memorandum and Articles of Association of Ultimate Finance Group plc.

2. I/We attach a cheque or banker's draft for the amount payable to "Neville Registrars a/c Ultimate Finance" and crossed "A/C Payee only". Attach one cheque or banker's draft only.

(minimum £2,000)

(15p multiplied by the number of New UFG Shares inserted in Box 1)  
See note 2

1. Form no.

2. Acceptance no.

3. Shares allocated

3. Dated 2004

Signature

4. Amount reserved  
£

4. Please use BLOCK CAPITALS

Forename(s) (in full)

Mr, Mrs, Ms, Miss or title

Surname

Address (in full)

5. Amount returned  
£

6. Cheque no.

5. Attach to this form your cheque or banker's draft made payable to "Neville Registrars a/c Ultimate Finance" and crossed "A/C Payee" for the amount in Box 2.

6. If you want to receive your New UFG Shares in uncertificated form (ie in CREST), please provide details of your CREST Participant ID and Member Account ID in the Boxes below:

Participant ID

Member Account ID

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The first applicant (as shown in Box 4) should complete the boxes above. Other persons applying to hold New UFG Shares jointly with the first applicant named in Box 4 should complete Box 7 as appropriate and sign in Box 8 below.

I/We join in this application and give the declaration set out in Box 1.

7.

<b>Please use BLOCK CAPITALS</b>		
Forename(s) (in full)	Forename(s) (in full)	Forename(s) (in full)
Mr, Mrs, Ms, Miss or title	Mr, Mrs, Ms, Miss or title	Mr, Mrs, Ms, Miss or title
Surname	Surname	Surname
Address (in full)	Address (in full)	Address (in full)
Postcode	Postcode	Postcode

8.

Signature	Signature	Signature
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Applications must be received 10.00 am on 21 May 2004. The completed Application Form together with a cheque or banker's draft for the amount payable should be posted or delivered by hand to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA.