

A copy of this document, which has been drawn up in accordance with the requirements of The Public Offers of Securities Regulations 1995 (the "POS Regulations"), has been delivered for registration to the Registrar of Companies in Scotland in accordance with Regulation 4(2) of those Regulations.

The Directors of Fly First plc, whose names are set out on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) this information is in accordance with the facts and does not omit anything likely to affect the import of such information. If you are in any doubt about the contents of this document, or what action to take, you should consult your stockbroker, financial adviser, solicitor, accountant, bank manager or other independent professional adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

The ordinary share capital of the Company is not currently listed or dealt in on any stock exchange and no application for admission of the ordinary share capital to listing or dealing has been made or is intended to be made for the time being.

Bell Lawrie is a division of Brewin Dolphin Securities Limited, which is regulated by the Financial Services Authority, and has been appointed financial adviser to the Company. Persons receiving this document should note that Bell Lawrie is acting for the Company and for no-one else in connection with the matters described in this document and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Bell Lawrie nor for providing advice on the contents of this document or any matters referred to herein. Bell Lawrie has not authorised the contents of, or any part of, this document for the purposes of Regulation 13 of the POS Regulations. This document has been approved for issue by Bell Lawrie, an authorised person for the purposes of section 21 of the Financial Services and Markets Act 2000.

FLY FIRST PLC

(Incorporated in Scotland under the Companies Act 1985 with registered number SC269250)



Offer for subscription

of up to

20,000,000 Ordinary Shares of 125 pence per Ordinary Share

Ordinary Share capital immediately following the Offer, assuming that the Maximum Subscription is achieved:

Authorised		Issued and to be issued fully paid	
No. of Ordinary Shares	Nominal value	No. of Ordinary Shares	Nominal value
30,000,000	£3,000,000	22,827,800	£2,282,780

Copies of this document, which was published on 22 March 2005, will be available free of charge during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the Company's registered office at 4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN and shall remain available until 10 June 2005. **The whole of this document should be read. In particular, your attention is drawn to the section entitled "Risk Factors and Financial Assumptions" in Part IV which is set out on pages 28 to 31 of this document.**

The Offer will open at 10.00 a.m. on 23 March 2005 and may be closed at any time thereafter. Applications in respect of the allotment of Ordinary Shares must be received by no later than 3.00 p.m. on 10 June 2005. The terms and conditions of the Offer are set out in Part VIII of this document and a guide to the Application Form is set out in Part IX of this document, followed by an Application Form for use in connection with the Offer.

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EXPECTED TIMETABLE

Offer opens	10:00 a.m. on 23 March 2005
Deadline for receipt of applications for final allotment	3:00 p.m. on 10 June 2005
Allotment and issue of first tranche of Ordinary Shares	By 16 June 2005
Despatch of definitive certificates in respect of first tranche allotted	By 23 June 2005

The Directors intend to commence commercial operations in November 2005. On this basis the Company will be able to submit a statement to the Inland Revenue in February 2006. If these dates are met, the Directors expect to make available EIS 3 certificates in the second quarter of 2006.

The deadline for receipt of applications is subject to the Offer not being fully subscribed by an earlier date. The Closing Date may be extended up until 30 June 2005 by agreement in writing between Bell Lawrie and the Company.

OFFER STATISTICS

Issue Price per Ordinary Share	125 pence
Issue costs (as a percentage of gross funds raised on the basis of the Minimum Subscription)	6.3 per cent.
Issue costs (as a percentage of gross funds raised on the basis of the Maximum Subscription)	5.9 per cent.
Net proceeds of the Offer (on the basis of the Minimum Subscription)	£20,617,000
Net proceeds of the Offer (on the basis of the Maximum Subscription)	£23,527,000
Number of Ordinary Shares in issue following the Offer (on the basis of the Minimum Subscription)	20,427,800*
Number of Ordinary Shares in issue following the Offer (on the basis of the Maximum Subscription)	22,827,800*
Commission available to Intermediaries	3.0 per cent. of amount introduced

**assuming no exercise of the 1,112,200 existing options granted over Ordinary Shares which will be exercisable within 3 business days of the allotment of the first tranche of Ordinary Shares following the Closing Date*

DIRECTORS, SECRETARY AND ADVISERS

Directors

Hamish Taylor (*Chief Executive*)
Peter Villa (*Operations Director*)
Keith Campbell (*Commercial Director*)
Bill Troup (*Finance Director*)
Lord Wade of Chorlton (*Non-Executive Director*)
John Campbell (*Non-Executive Director*)

*all of whose business address is: 4th Floor, Saltire Court,
20 Castle Terrace, Edinburgh EH1 2EN*

Company Secretary and Registered Office

Bill Troup
4th Floor
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Edinburgh
EH1 2EN

Financial Adviser to the Company

Bell Lawrie
(a division of Brewin Dolphin Securities Limited)
7 Drumsheugh Gardens
Edinburgh
EH3 7QH

Solicitors to the Company

Dundas & Wilson CS LLP
4th Floor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

Auditors and Reporting Accountants

Deloitte & Touche LLP
4th Floor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Receiving Agents

Capita Registrars
Corporate Action Department
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Principal Bankers

The Royal Bank of Scotland plc
36 St. Andrew Square
Edinburgh
EH2 2YB

DEFINITIONS

"Act" or "Companies Act"	the Companies Act 1985, as amended
"AIM"	AIM, a market operated by the London Stock Exchange
"AIM Rules"	the rules of the London Stock Exchange governing admission to and the operation of AIM
"American Airlines" or "AA"	American Airlines, Inc.
"AOC" or "Air Operator's Certificate"	the AOC is a certificate issued by the Safety Regulation Group of the CAA to an operator that can satisfy the CAA of the requirement to operate a safe airline
"Applicant"	a person who applies for Ordinary Shares
"Application Form"	the form for application for Ordinary Shares under the Offer which accompanies this Prospectus and which requires compliance by applicants with certain requirements set forth in this Prospectus, further details of which are contained in the sections entitled "Terms and Conditions of the Offer" and "Guide to the Application Form" which are set out respectively at Parts VIII and IX of this document
"BAA"	BAA plc
"Bell Lawrie"	Bell Lawrie, a division of Brewin Dolphin and financial adviser to the Company
"Board" or "Directors"	the directors of the Company, whose names and details are set out on pages 17 to 19
"Brewin Dolphin"	Brewin Dolphin Securities Limited, which is authorised and regulated by the Financial Services Authority
"British Airways" or "BA"	British Airways Plc
"business class"	the business class cabin and service of an airline, both pre-flight and in-flight
"CAA" or "Civil Aviation Authority"	the UK's aviation regulator
"Closing Date"	10 June 2005, or such later date as Bell Lawrie, the Company and the Directors may agree in writing, not being later than 30 June 2005
"Company" or "Fly First"	Fly First plc
"Continental"	Continental Airlines, Inc.
"economy class"	the economy class cabin and service of an airline, both pre-flight and in-flight
"EEA"	European Economic Area, consisting of the member states of the European Union together with Iceland, Liechtenstein, Norway and Switzerland
"Enterprise Investment Scheme" or "EIS"	the Enterprise Investment Scheme and related reliefs as detailed in Chapter III, Part VII of the Income and Corporation Taxes Act 1988 and in sections 150A to 150D and Schedule 5B and 5BA of the Taxation of Chargeable Gains Act 1992 (as amended)
"EIS Shares"	Ordinary Shares intended to be capable of qualifying for relief under EIS
"Escrow Agreement"	the escrow agreement between (1) the Company and (2) Bell Lawrie dated 21 March 2005, details of which are set out in paragraph 5 of Part VI of this document

“first class”	the first class cabin and service of an airline, both pre-flight and in-flight
“Founders”	Keith Campbell, John Campbell, Hamish Taylor, Bill Troup, Peter Villa, Owen McLaughlin and certain other individuals not involved in the management of the business, details of whom are contained in paragraphs 2 and 4 of Part VI of this document
“Gatwick”	Gatwick airport in West Sussex, United Kingdom
“GDS” or “Global Distribution Systems”	computer systems created to enable travel agents to book airline tickets from airlines included on the GDS. The four major systems in the UK are Sabre, Galileo, Amadeus and WorldSpan
“grandfather” or “grandfather rights”	the traditional, IATA-based, system of prioritising the allocation of slots to airlines on the basis of the airlines having operated at the same time the previous year
“Heathrow”	Heathrow Airport in Middlesex, United Kingdom
“IATA” or “International Air Transport Association”	an association of approximately 270 airlines which aims to ensure that its members’ aircraft can operate safely, securely, efficiently and economically under clearly defined and understood rules. IATA aims to simplify the travel process and develop working standards within the aviation industry
“initial period of operation”	the period between the Closing Date and the start of commercial operations
“Intermediary”	a person authorised by the Financial Services Authority to conduct investment business pursuant to the Financial Services and Markets Act 2000 or other such introducers of Applicants as the Directors shall approve for this purpose
“Issue Price”	125 pence per new Ordinary Share
“JFK”	John F. Kennedy International Airport in New York, USA
“load”	the number of passengers per flight
“load factor”	the number of passengers per flight measured as a percentage of the total capacity of that flight
“London City”	London City Airport in London, United Kingdom
“London Luton”	London Luton Airport in Bedfordshire, United Kingdom
“London to New York”	the flight route between any of Gatwick, Heathrow, London Luton or London Stansted and JFK or Newark
“London Stansted”	London Stansted Airport in Essex, United Kingdom
“London Stock Exchange”	London Stock Exchange plc
“Maximum Subscription”	the maximum subscription under the Offer, being gross funds of £25 million
“Minimum Subscription”	the minimum subscription under the Offer, being gross funds of £22 million
“Newark”	Newark Liberty International Airport in Newark, New Jersey, USA
“New York airport”	Newark or JFK
“Non-EIS Shares”	Ordinary Shares not intended to be capable of qualifying for relief under EIS
“Offer”	the proposed offer for subscription of up to 20,000,000 new Ordinary Shares (including a projected maximum of 12,520,624 EIS Shares) at the Issue Price

"Offer Agreement"	the agreement dated 21 March 2005 between (1) Bell Lawrie (2) the Company and (3) the Directors relating to the Offer, details of which are set out in paragraph 5 of Part VI of this document
"Operating Licence"	the licence issued by the CAA which enables the holder of the licence to fly most routes within the EEA
"Ordinary Shares"	ordinary shares of 10 pence each in the Company
"premium class"	business class and first class taken together
"premium economy class"	the class of cabin and service made available by certain airlines located between economy and business class
"private jet"	a jet aircraft available for private charter that is not operating on a scheduled timetable
"Private Terminal"	a private terminal at London Luton
"Prospectus"	this document
"Registrars" and "Receiving Agents"	Capita Registrars, a division of Capita IRG Plc, which is regulated by the Financial Services Authority
"Route Licence"	the licence issued by the CAA to holders of an Operating Licence for services either partly or wholly outside the EEA
"seat pitch"	the distance between a point in any one seat and the equivalent point in the seat in front
"Shareholder(s)"	the person(s) who are registered as holder(s) of Ordinary Shares from time to time
"UK" or "United Kingdom"	United Kingdom of Great Britain and Northern Ireland
"United" or "United Airlines"	United Airlines, Inc.
"USA", "US" or "United States"	United States of America, each state thereof, its territories and possessions and the District of Columbia
"US\$" or "Dollar"	United States dollar
"Virgin"	Virgin Atlantic Airways Limited
"Year 1"	the first twelve months of commercial operations
"Year 2"	the second twelve months of commercial operations
"Year 3"	the third twelve months of commercial operations
"£" or "Sterling"	United Kingdom pounds sterling

KEY INFORMATION

Introduction

Fly First is a new company that has been established to operate an innovative, exclusively business class airline between the UK and the USA. Its operations are planned to commence in late 2005 with a daily return flight on the London to New York route using a Private Terminal at London Luton and Terminal B at Newark. The purpose of this Prospectus is to provide potential investors and their advisers with relevant information on Fly First and the Offer.

Fly First aims to provide a quicker and easier journey than any other scheduled airline on the London to New York route. The Directors intend to differentiate Fly First from current services on this route through a combination of:

1 PROVIDING GREATER CONVENIENCE AT THE AIRPORT

- (i) the planned use of a Private Terminal at London Luton, with a 45 minute check-in, providing passengers with a congestion-free and hassle-free airport experience, thereby avoiding many of the delays often associated with international travel at Heathrow and Gatwick; and
- (ii) complimentary car parking facilities will be provided conveniently located for the Private Terminal.

2 PROVIDING THE FIRST ARRIVAL INTO A NEW YORK AIRPORT

- (i) the planned departure time from London Luton will be 6.45 a.m.; and
- (ii) the scheduled arrival time into Newark will be at 9.00 a.m. (local time) – an arrival time into a New York airport which the Directors believe has been unavailable since the retirement of Concorde – approximately two hours earlier than the next scheduled arrival on the London to New York route and before any other currently scheduled arrivals from Europe.

3 PROVIDING A SUPERIOR SERVICE

- (i) Fly First will fly business class passengers only;
- (ii) there will be a maximum of only 48 passengers onboard Boeing 757-200 aircraft (designed to carry up to 228 passengers), divided into four cabins of only 12 seats each;
- (iii) all seats onboard will have an 82" (6ft 10 inches) pitch and will be convertible into fully flat beds;
- (iv) an exclusive chauffeur service will be available to and from London Luton and Newark;
- (v) there will be a high standard of onboard service;
- (vi) onboard facilities will include changing rooms, telephones and fax machines; and
- (vii) the Directors do not expect that there will be any international flights arriving into Newark Terminal B within one hour either side of Fly First's service which should allow a fast and efficient immigration process.

4 ALL THE ABOVE WILL BE OFFERED AT BUSINESS CLASS FARES COMPARABLE TO THOSE OFFERED BY TRADITIONAL, FULL SERVICE CARRIERS.

Based on the average projected return fare of £3,360, the Directors have calculated that, in Years 2 and 3, Fly First needs to attract, on average, just below 16 passengers per flight in order to breakeven in those years. This equates to an average load factor of circa 32 per cent. The Directors expect to achieve a monthly average load factor of 32 per cent. in Month 10 of Year 1.

The Directors believe that the Fly First economic model is different from those of both typical low cost and traditional, full service airlines. These airlines target high volumes of passengers from the mass market at relatively low average yields and therefore require significant investment for both marketing and development of route networks. Fly First's economic model, by contrast, is targeted at the more specific and identifiable business class market and requires lower volumes of business fare-paying passengers.

To provide additional service reliability, the Directors will lease two aircraft from the start of commercial operations. The initial flight schedule will offer one daily return flight and the second aircraft will provide backup to the service during Year 1. A second daily service is planned to commence in Year 2 to meet the anticipated increase in demand.

The Directors' financial projections are based on achieving an average of 25 passengers per flight in Year 3. This number of passengers would represent only 4.6 per cent. of the estimated daily premium class market on the London to New York route.

Significant tax benefits available to qualifying investors

The Directors have structured Fly First so that there is scope for the investments of some Applicants to qualify under the Enterprise Investment Scheme. EIS Shares are Ordinary Shares which the Directors believe are capable of qualifying for relief under EIS. Provisional advance assurance in respect of the Company's trade has been provided by the Inland Revenue. EIS has a number of tax benefits for qualifying Applicants. Further details are set out in Part III of this document. Applicants who believe they may qualify for EIS relief are strongly advised to consult their own taxation advisers.

Other benefits

Upon successful conclusion of the Offer the Directors intend to look at what benefits can be provided by the Company for the Shareholders. These benefits may include free or discounted flights and other privileges.

Costs

Based on the Minimum Subscription, the issue costs (including introductory commission payable to Intermediaries) will be a maximum of 6.3 per cent. of the total gross funds raised under the Offer.

Dividend policy

It is the intention of the Company that the Ordinary Shares should benefit from the achievement of capital growth which, under the EIS rules, should be free of tax to qualifying investors who hold the EIS Shares for a minimum period of three years from the date of issue of the EIS Shares or, if later, three years after the commencement of commercial operations. The Directors project that the Company will have distributable reserves in Year 3 and intend to review their dividend policy at that time.

Prospects

The Directors estimate a slow build up in average passenger numbers per flight, from 10.6 in Year 1 to 19.2 in Year 2, before levelling off at 25 in Year 3. The Directors project that an average of just below 16 passengers per flight is required to breakeven in Years 2 and 3.

Investor returns and exit strategy

The Directors intend to pursue two objectives in terms of Shareholders' returns and exit. The principal objective will be to maximise returns to investors over a 2 to 5 year investment period.

The Directors will also aim to create liquidity for Shareholders. Accordingly, it is their intention to seek the admission of Fly First to AIM at an appropriate time. The Directors believe this is likely to be within 18-36 months of the Closing Date but not before the availability of Year 1's audited financial statements. In the opinion of the Directors, admission to AIM will not only be likely to provide increased liquidity for Ordinary Shares, but also raise the profile of the Company and potentially enhance the attractiveness of Fly First as an investment opportunity. The Directors will only pursue a quotation on AIM if market conditions are supportive and if an appropriate valuation of the Company can be achieved. In order to achieve admission to AIM, the Company would be required to satisfy the requirements of the AIM Rules applicable at that time. Shareholders should note that John Campbell, a Non-Executive Director, has experience of an AIM flotation as he was chairman of the Cavanagh Group plc at the time of its flotation on AIM in 2001. Alternatively, the Directors may consider a trade sale or some other strategic arrangement.

This summary of information should not be read in isolation but in conjunction with the entire contents of the Prospectus.

PART I

1 THE PROPOSITION

Fly First aims to provide a quicker and easier journey than any other scheduled airline on the London to New York route. The Directors intend to differentiate Fly First from current services on this route through a combination of:

- greater convenience at the airport;
- providing the first arrival into a New York airport;
- providing a superior service; and
- business class pricing.

Greater convenience at the airport

The Directors believe there is a niche for a service combining the advantages of a competitively priced, scheduled service with standards of service and convenience approaching those of the private jet sector.

Private Terminal

Fly First is in discussions with the two operators of Private Terminals at London Luton to secure the use of one of the terminals by the start of commercial operations. The Private Terminals have been developed for the private jet market and are separate from the main terminal at London Luton, providing passengers with comfortable, private facilities together with conveniently located parking facilities which Fly First intends to offer at no cost to passengers. Speed of transit through ticketing, security, customs and immigration at the Private Terminal can be closely managed in order to reduce potential inconvenience to passengers. The Directors believe that the use of the Private Terminal (with a maximum of 48 passengers per flight) will enable ground staff to process outbound passengers for take-off within 45 minutes of check-in. The Directors intend to offer remote check-in facilities to enable passengers to check-in prior to arrival at the airport. In addition, Fly First will offer an exclusive chauffeur service available to and from London Luton and Newark.

London Luton location

The Directors' research, based on information currently available, observed the following key characteristics of UK transatlantic business class passengers:

- approximately 75 per cent. of passengers travelling to New York conduct their business in New York and are not seeking onward connections; and
- more passengers live in the South East of England and Greater London than in any other area of the UK.

The Directors believe that London Luton's position to the north of London, and Heathrow, makes it an attractive option for all transatlantic travellers to the north, north west, east and north east of London Luton as well as most of Greater London:

- approximately 34 per cent. of all passengers on the London to New York route in 2003 had their point of origin or destination within a 60 minute drive-time of London Luton;
- London Luton is less congested than Heathrow and Gatwick airports, where congestion is one of the main contributors to air traffic delays;
- London Luton has capacity to accommodate significantly more air traffic than it currently does;
- London Luton is open 24 hours per day; and
- London Luton has already been successful in attracting a higher proportion of business travellers to leisure travellers than Gatwick or London Stansted.

Newark Terminal B

On arrival into Newark, passengers will be met by Fly First representatives and directed through immigration to the baggage collection point and then through customs. Once through customs, passengers travelling onto New York city will have the option of catching the AirTrain, with connections to Penn Station in New York, or being met by the exclusive chauffeur service.

For departures from Newark, Fly First intends to operate sufficient desks in Terminal B to allow passengers to be processed within the 45 minute timescale. Passengers will have access to an executive lounge where pre-flight meals will be available. Fly First is also in discussions with several parties with a view to one of them acting as handling agent in Terminal B of Newark. The handling agent at Newark will be required to provide up to 3 staff to assist with arrivals and a further 2 staff to oversee check-in arrangements, as well as a manager to supervise these operations. It is intended that contracts for both handling services and catering at Newark will be finalised between the Offer becoming unconditional and commencement of commercial operations.

Newark location

Newark is approximately 16 miles from Manhattan and handled over 405,000 plane movements during the course of 2003 for approximately 29.5 million passengers. Fly First is in discussions with The Port Authority of New York and New Jersey to operate its flights from Newark at the scheduled times. Fly First will seek to share lounge facilities with another airline which is typical of lounge arrangements at Newark. Newark is nearing completion of a US\$3.8 billion redevelopment programme to extend the existing AirTrain service, construct a second international arrivals facility, modernise the existing terminal facilities, enhance access to the airport and increase car parking facilities.

Providing the first arrival into a New York airport

It is intended that flights will commence in late 2005 with a daily return flight between London Luton and Newark. Fly First's initial schedule envisages a morning departure from a Private Terminal that will be the first flight of the day on the London to New York route (scheduled to arrive in Newark at 9.00 a.m. (local time), an arrival time into a New York airport which the Directors believe has been unavailable since the retirement of Concorde). This flight will be the first scheduled European arrival of the day at Newark, and will be scheduled to arrive approximately two hours earlier than the current first scheduled flight on the London to New York route. The Directors believe that this will allow Fly First passengers to avoid peak time delays with the immigration and baggage collection process. The evening departure from Newark to London Luton will be scheduled for 7.00 p.m. (local time).

The Fly First flight schedule has been designed to enable business travellers to arrive in both New York and London at the start of the day, thereby enabling them to schedule a relatively full business day. Capacity at London Luton is such that there are currently no slot constraints, in contrast to Heathrow and Gatwick airports. A second daily scheduled service is projected for launch in Year 2. This will enable passengers to select an afternoon departure from the Private Terminal and a morning departure from Newark. It is currently envisaged that this second service will operate on weekdays only.

Providing a superior service

Service

Fly First plans to operate a superior business class airline service. The 2 Boeing 757-200 aircraft will be converted to carry 48 passengers in a spacious, business class configuration. Seat pitch will be comparable with that of first class in other airlines, each seat will be separately screened and in-flight services will be available on a continuous basis.

All seats on board the aircraft will have an 82" pitch (6ft 10 inches), privacy screens between seats and will convert into fully flat beds. Group parties and corporate incentive packages will be offered, including group seating, personalised headrest covers, menu cards and baggage labels. The Directors intend that passengers will also have access to:

- individual in-flight entertainment systems for on-demand entertainment;
- private dressing rooms and full-length wardrobes;
- satellite phones, fax machines and power for laptop computers;

- a fine dining menu (including a selection of quality wines and beverages);
- a self-service drink and snack bar; and
- exclusive amenity kits for day and night flights (including comfortable cabin wear consisting of pyjamas and slippers; duvets and pillows; and a range of complimentary newspapers and magazines).

The following table compares Fly First's proposition to the traditional, full service carriers' business class offerings:

Airline	Chauffeur	Flat bed	Seat pitch
Fly First	✓*	✓	82"
BA	X	✓	73"
Virgin	✓*	✓	79.5" – 82"
AA	X	X	60"
Continental	✓*	X	55"
United	X	X	55"

* dependent on ticket purchased

The Directors believe that by operating on a business class only basis both ground and cabin service teams will be able to provide a consistently high level of service to customers. Market reports indicate that customer care is a highly ranked aspect of client satisfaction when flying premium class. Accordingly, the Directors' intend to place particular importance on flight and cabin crew selection, training and incentivisation. On a full capacity flight the cabin crew to passenger ratio is projected not to exceed 1:12 and, based on projected passenger loads in Years 1 and 2, the ratio will be 1:3 and 1:5 respectively.

Reliability

The Directors recognise that reliability is a key element of a premium service but are aware of the risk of technical delays. Accordingly, the Company intends initially to use two Boeing 757-200 aircraft. During Year 1, there will be only one daily return service meaning that, each day, one aircraft will spend up to 10 hours at Newark and, the other, 23 hours at London Luton.

Fly First is currently in negotiations with an engineering and maintenance company that holds CAA approval to carry out maintenance on Boeing 757-200s to provide a complete service at both London Luton and Newark. The Company must comply with the CAA's maintenance requirements in order to obtain and retain its AOC.

Business class pricing

The Directors believe that the customer proposition is persuasive and the Company's marketing efforts will concentrate on communicating the proposition's superior and distinctive features. Therefore, Fly First's pricing structure will be based on the current business class fares offered by traditional, full service carriers on the London to New York route. The marketing programme will seek to convince business class travellers that Fly First is quicker and easier to use than other traditional, full service carriers.

Fly First will offer two types of ticket:

- **fully flexible ticket**
A ticket that will allow passengers to change their flight as required and will also include the use of chauffeur services to and from both airports.
- **restricted ticket**
A ticket that will restrict passengers to the flight they have booked (changes to flights will be permitted subject to additional charges). Chauffeur services will be available at an additional charge.

The Directors have adopted a pricing strategy which will be competitive in relation to current business fares on the London to New York route, which presently range from approximately £3,400 to £4,200. Fly First published fares will range from £3,400 to £4,100 although frequent use discounts will be available to corporate clients. Given the competitive nature of, and high costs involved in, business class travel, the Directors intend to launch an imaginative loyalty programme for its regular passengers and corresponding incentives for travel agents.

2 SALES AND MARKETING

Marketing strategy

In contrast to a typical low cost or traditional full service airline model, the Fly First proposition will be targeted at businesses and business travellers rather than the mass market. The Directors believe that it is possible to reach this market effectively through three main channels:

- business travel agents;
- corporate bookers; and
- the business media.

The business model is reliant on a low number of high margin passengers, requiring lower breakeven load factors than the typical low cost airline model. The Directors have identified the key areas of the market and will focus their marketing strategy on creating relationships with the principal decision makers and influencers and, where appropriate, the Directors will incentivise key opinion formers to trial the flight. The Company will look to develop a customer base and retain customers through the delivery of a superior service, a loyalty programme and effective relationship management with travel agents and corporate bookers.

Fly First's research into over 100 UK companies' travel policies indicates that the vast majority use a travel agent to assist them with booking long-haul flights. The Directors and the senior management team will liaise closely with targeted travel agents who are responsible for corporate business class bookings. The Directors have already contacted a sample of travel agents who indicated both that they use a variety of airlines for the transatlantic route, and would be prepared to consider a new service on its merits. The travel agents surveyed are particularly interested in the Fly First proposition as a way of reducing their customers' overall journey time between London and New York. The Directors intend to offer competitive commission to travel agents as an incentive for booking flights. The award of commission on the tickets means that the travel agent can either rebate some or all of the commission to the client, and therefore reduce the effective ticket price, or retain the commission for its own benefit.

Approximately 25 per cent. of the 100 UK companies researched by Fly First had a dedicated travel manager responsible for booking flights. For the remainder, travel bookings were carried out by a mix of executive personal assistants, procurement managers, administration managers and contract services managers. The Company has identified a database of travel buyers from approximately 1,100 companies and approximately 50 per cent. of these travel buyers spend more than £100,000 per annum on corporate travel. It is intended that this database will be used to market directly to these corporate buyers. Advertising, PR and exhibitions will also be used to target this key group. In marketing to corporate travel bookers, the Directors, supported by a director of sales and a sales team, will target companies whose personnel travel regularly on the London to New York route. Corporate deals will be negotiated with significant customers.

Pre-launch and launch

During the pre-launch phase of operations, Fly First will target key opinion-forming audiences to whom the Directors consider the proposition must be addressed, including:

- *travel agents and corporate travel bookers*

The Directors intend to distribute Fly First tickets via the main Global Distribution Systems to ensure the direct availability of the Fly First service to travel agents and certain corporate travel bookers. The Directors will meet with travel agents and corporate travel bookers to create awareness of both the competitive passenger benefits of Fly First and the incentives for travel agents and corporate bookers who recommend the service.

- *business travel media*

The Fly First communication strategy will be to generate a positive third party endorsement of the Fly First proposition from the business travel media.

- *individual business class passengers*

The Directors believe that in the business class segment, the individual passenger remains a major influence in the selection of the airline and associated ticket purchase.

The Directors believe it is important to understand what makes people choose a particular airline service. Recent research by TGI has shown that the five most significant factors in influencing an individual when selecting a flight are, in order of significance:

1. personal experience;
2. in-flight comfort;
3. company policy;
4. convenient timings; and
5. loyalty schemes.

The Directors aim to create awareness of the Fly First proposition amongst targeted passenger groups in order to stimulate initial demand. The Directors intend to build on passengers' first experiences of the service to drive repeated use and stimulate word-of-mouth endorsement from passengers. It will be possible for Fly First to take advantage of low initial load factors to introduce a cost-effective and attractive trial incentive programme. This will allow opinion formers to sample the superior services including the benefits of the Private Terminal. Prior to launch, Fly First will have a number of free, invitation only, sampler flights and introduce a Fly First website prior to launch which will allow internet bookings to be made.

Brand awareness and marketing

The marketing programme will seek to convince business class travellers that Fly First is quicker and easier to use than the traditional, full service carriers, focussing on the key features of the proposition.

In addition, the Directors believe that strong public relations will be an influential factor in promoting Fly First and they intend to appoint an international PR agency, with both a UK and US presence, following the Offer becoming unconditional. Official launch events will be held in London and New York to further enhance awareness of Fly First's services. The Company also intends to appoint a marketing agency which will be responsible for developing the Company's brand and its pre-launch literature.

It is intended that a director of sales leading sales teams in London and New York will be recruited and together they will be responsible for developing relationships with corporate bookers and travel agents.

Bookings and booking systems

Fly First is in discussions with GDS operators to ensure inclusion within their global distribution systems. The Board considers this essential to allow travel agents around the world to book tickets easily and represents a proportion of the annual marketing budget.

The availability of travel bookings outside of office hours and local time zones allows individuals to book their own arrangements via the internet and through intranet research systems. Fly First intends to have a direct booking facility available via an outsourced 24-hour call centre and a direct booking web site, and has secured the domain name www.fly-first.com.

3 MARKET OVERVIEW AND COMPETITION

Passenger numbers and value of marketplace

According to the CAA, in the twelve months to 31 December 2003, 3,672,240 people were recorded travelling on the London to New York route. This equates to an average of 10,061 one-way passengers per day or 5,031 return passengers per day. British Airways and Virgin, between them, currently have the

largest market share on the London to New York route. Passenger numbers for the twelve months to 31 December 2004 increased to 3,979,776, an increase of 8.4 per cent. Market share analysis of these passengers is not yet publicly available.

Passenger numbers on the London to New York route, 2003

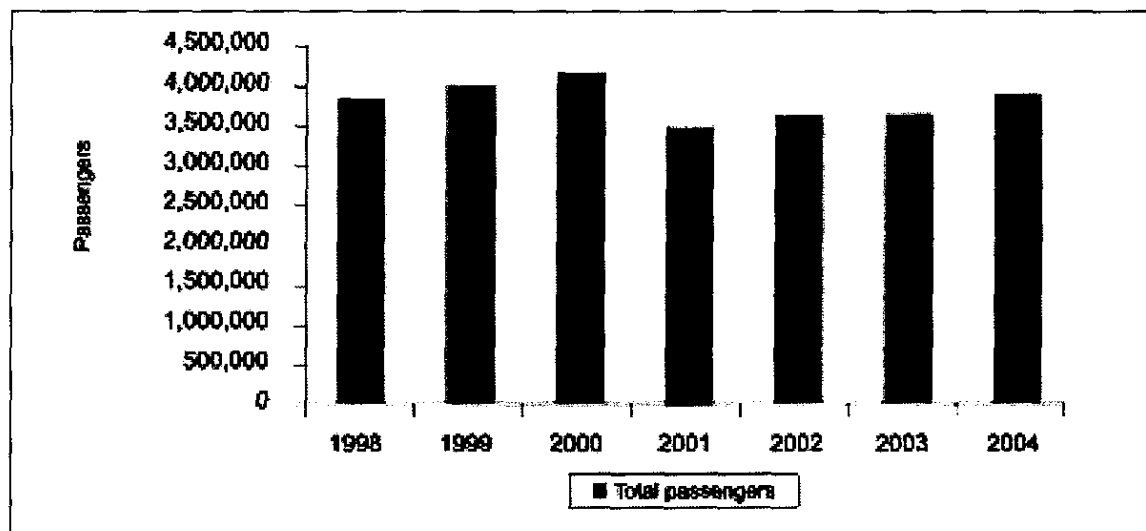
Airline	Total number of reported passengers in twelve months to 31 December 2003	% market share
British Airways * ¹	1,451,706	39.5
Virgin*	826,412	22.5
United Airlines, Continental Airlines, American Airlines and other passengers	1,394,122	38.0
Total †	3,672,240	100

* Source: The Port Authority of New York and New Jersey

† Source: CAA

¹ It should be noted that the number of passengers quoted for British Airways has been reduced to reflect passengers travelling between Manchester and New York in 2003. The Directors have estimated this figure to be approximately 100,432.

Passenger numbers on the London to New York route, 1998–2004



Source: CAA.

In order to assess the size of the London to New York premium class market the Company has analysed the published seat capacity of the traditional, full service carriers on the London to New York route:

Airline	Number of flights per day*	Number of premium class seats available per day†	% of daily total premium class seat capacity
British Airways	10	752	52
Virgin	5	218	15
American	6	306	21
United	2	103	7
Continental	2	73	5
Total	25	1,452	100

* Source: BAA as at 14 October 2004

† Source: Individual carriers as at 14 October 2004

The table above illustrates that, as at 14 October 2004, the scheduled premium class seat capacity from London to New York each day was 1,452 seats. Fly First intends to add 48 seats per day in Year 1 to the current market capacity and to add a further 48 seats per day in Year 2. Fly First's 48 available seats in Year 1 would represent 3.2 per cent. of the total premium class seat capacity.

The Directors have estimated an average daily number of premium class seats to be sold in order to derive their expected share of the market. The Directors have calculated that, in 2003, flights on the London to New York route operated with an average load factor of 80.3 per cent. (based across all passenger classes). On the assumption that this factor applies uniformly across all cabin classes, the Directors estimate that, on average, approximately 1,096 premium class passengers fly from London to New York each day.

Fly First's projected load of 50 return passengers per day in Year 3 represents approximately 4.6 per cent. of the total estimated daily 1,096 premium passengers. The Directors estimate that the financial value of the London to New York business class market is between £1.6 billion and £1.9 billion per annum.

Private jet market

There is a private jet market within the United Kingdom which is mainly used by short and medium haul passengers. Relatively few private jets are able to make transatlantic flights without at least one fuel stop. However, the luxury of, and levels of service offered by, private jets are believed to be attractive to premium class passengers. The table below demonstrates the number of private jets used for business purposes that were handled at London airports during the course of 2003:

Airport	Business aviation movements
Gatwick	747
Heathrow	1,291
London City	941
London Luton	12,908
London Stansted	6,182

Source: CAA

This table demonstrates that the busiest airport in the London area for private jet activity for business purposes in 2003 was London Luton.

The Directors believe that the private jet market is showing signs of growth within the UK and that business passengers are becoming increasingly frustrated by flight delays and cancellations by traditional, full service carriers as well as downgraded service offerings. Private jets offer the advantage of flying from smaller airports and airfields which are less congested and avoid protracted check-in procedures.

Recent market trends on the London to New York route

Until the terrorist attacks on 11 September 2001, the market had been growing steadily. The impact of the terrorist attacks was to reduce passenger numbers considerably in that year. However, since then the market has improved year on year with significant growth in 2004. Business travellers, along with others, have come to experience lengthening delays in moving through airports and suffer from poor punctuality due to congestion in airports and in the skies. Airlines have offered incentives to attract the premium paying passengers by introducing longer seat pitches, flat-bed seats and other onboard features. However, the Directors believe that, by continuing to operate the traditional, full service from Heathrow or Gatwick, none of the main carriers is able to significantly address the problems of congestion and delays to the extent that the Fly First proposition intends to.

Competitor reactions

The Directors believe that there are several reasons why traditional, full service carriers on the London to New York route will find it difficult to respond to the service concept offered by Fly First.

Heathrow and Gatwick

Of the 25 scheduled flights departing daily from London to New York, 23 leave from Heathrow and 2 from Gatwick. Both of these airports are operated by BAA whose own forecasts indicate that elements of Heathrow's infrastructure are expected to act as a constraint to increasing capacity and both Heathrow and Gatwick are currently close to capacity at the times Fly First is scheduled to depart. Most of the slots at peak times at Heathrow are currently allocated to existing operators. In order to offer a departure schedule out of Heathrow or Gatwick which competes with Fly First, these airlines would currently have to re-schedule one or more of their existing operations or routes (which may or may not be cost effective). In addition to setting out complex procedures to determine the annual increase in service frequency, the Air Service Agreement between the UK and the USA currently restricts the number of carriers operating out of Heathrow and Gatwick on the London to New York route.

To compete with the Fly First customer service proposition, existing carriers would have to re-configure and convert an aircraft to a business class only service (which may or may not be cost effective).

Private Terminal

The Directors recognise the possibility that competitor airlines may seek to operate a similar service from a private terminal at London Luton. Fly First intends, at the time of launch, to have secured an exclusive contract to be the only scheduled airline to use one of the two Private Terminals, thereby requiring any competitor at London Luton to secure and develop alternative facilities.

Fly First intends to provide private parking facilities conveniently located for the Private Terminal ensuring direct and quick access. This, together with an anticipated 45 minute check-in period, means that Fly First's proposition should provide a valuable time-saving benefit to passengers.

Price competition

The Directors recognise that the traditional, full service carriers could seek to compete with Fly First by reducing the cost of their premium class seats. Since the major carriers operate a number of flights on the London to New York route, a reduction in price on the first morning departures of the major carriers would be expected to have a more significant financial impact on them than the loss of 25 passengers (being the Fly First projected maximum 52 per cent. load factor in Year 3) out of the current estimate of 1,096 passengers using the major carriers each day.

Control of passenger movement

On the basis of what the main carriers currently offer, Fly First will be unique in operating a UK-originating scheduled transatlantic flight configured for only 48 passengers. This relatively small number of passengers should ensure a quick check-in and boarding procedure. A report published in the *Financial Times* in September 2004 highlighted the impact of increased security measures proposed by the US government requiring more data on foreign nationals arriving in the USA. It provided details of estimates that suggested that the collation of this data could add 45 minutes to existing check-in requirements. With only 48 passengers, the Directors believe they can take unobtrusive steps to comply with these new measures without increasing check-in times.

4 THE BOARD

The Board comprises six Directors – four executives and two non-executives. The Board has a wide range of experience in aviation and in company management.

Hamish Taylor, Chief Executive, age 44

Hamish Taylor is a Fellow of the Chartered Institute of Transport and of the Chartered Institute of Bankers. Hamish began his career with Procter & Gamble and subsequently moved to Price Waterhouse as a management consultant specialising in marketing effectiveness studies. He then moved to British Airways where he took up a position as head of brand management with responsibility for the airline's passenger brands (including First, Club, Concorde and the Shuttle) and also for growing the BA franchise partners and alliances. Under his leadership, British Airways undertook major product

re-launches including Club Europe, Club World and First Class where the successful introduction of flat beds represented a major upgrade in British Airways' products in order to differentiate it from existing business and first class offerings.

In 1997, Hamish moved to Eurostar (UK) Limited as managing director and, in 1999, was promoted to chief executive officer of Eurostar Group. At the end of 1999, he was appointed as chief executive officer of Sainsbury's Bank PLC, a joint venture between J Sainsbury plc and Bank of Scotland. In just over two years, the joint venture's profitability grew from £2.6 million to £23 million, through product innovation and improving access to customers. Since leaving Sainsbury's Bank in 2002, he has set up his own venture, Hamish Taylor Skills Exchange Network, and was also previously the UK chief executive officer of VISION Consulting Limited.

Peter Villa, Operations Director, age 64

Peter Villa is a chartered accountant and has over thirty years of experience as a senior manager in the airline industry. He joined British Island Airways Limited as chief accountant in 1970, being promoted to managing director before the company merged with Air Anglia Limited to form Air UK Limited in 1980. Peter subsequently became managing director of Air UK and was responsible for the successful integration of the two companies and laid the foundations for what was one of the UK's leading regional airlines prior to its acquisition by KLM Royal Dutch Airlines. In 1982 he arranged the management buy out of British Island Airways from Air UK and was responsible for launching the company on the Unlisted Securities Market of the London Stock Exchange. He joined the IBA Group Limited in 1990 as managing director and was responsible for the review and development of their aircraft appraisal section. He gained considerable experience in advising airlines in the Caribbean and Central and Eastern European countries.

In 1993, Peter formed his own company Apollo Aviation Advisory Limited ("AAA") which has developed into a broadly based management consultancy specialising in aviation and travel, combined with a small aircraft engineering and leasing operation based at Shoreham Airport. AAA's clients include government departments, large international airlines, airports, banks, leasing companies and lawyers.

Keith Campbell, Commercial Director, age 31

Keith Campbell has been responsible for bringing the management team together to develop the Fly First proposition. His role as Commercial Director will incorporate sales and brand development, developing and maintaining supplier relationships and elements of customer services. Keith has worked in the financial services industry for the last 13 years, predominately for Scottish Mutual Assurance plc (part of the Abbey National plc group) where he was responsible for sales and distribution of products to the professional intermediary market. He left in April 2004 to pursue the development and launch of Fly First.

Between 1992 and 1997, Keith also worked part time for a handling agent in Edinburgh, gaining considerable experience in dealing with VIP and corporate aircraft. In 2002 he became a shareholder in a small commercial aircraft operation, Edinburgh Air Centre Limited ("EAC") and was appointed operations director. EAC holds an Air Operator's Certificate and conducts aerial photography and pleasure flying throughout Scotland and the UK. Keith intends to maintain his association with EAC at a non-executive level. He also holds a private pilot's licence which he gained in 1992 and, in that year, he became the youngest person to cross the Atlantic in a single engine aeroplane.

Bill Troup, Finance Director, age 43

Bill Troup is a chartered accountant having trained with KPMG. Prior to joining Fly First, he was a director of Equity Finance with The Royal Bank of Scotland plc ("RBS") responsible for their development capital portfolio and, between 2000 and 2004, was managing director of Royal Bank Ventures, the technology venture capital arm of RBS. His other roles have included managing director of Caledonian Capital Limited between 1999 and 2000, a joint venture between RBS and Bank of Scotland, which focussed on the high value European leveraged buy-out market. Between 1994 and 1998, Bill was a director of Leveraged Finance with RBS. He has previously worked for the Morgan Crucible Company plc, as deputy head of Group Financial Planning, and for Merrill Lynch & Co., Inc.

Lord Wade of Chorlton, Non-Executive Director, age 72

Lord Wade of Chorlton was knighted in 1982 for services to the North West of England and made a Member of the House of Lords in 1990. From 1982 to 1990 he was joint treasurer of the Conservative Party. In the House of Lords his interests are business, the rural economy and technology and he is a member of the House of Lords Science and Technology Select Committee. Lord Wade is currently chairman of Rising Stars Growth Fund Limited, Midas Capital Partners Limited, Nimtech, Campus Ventures Group Limited, William Wild & Son (Mollington) Limited, Rocktron Limited and Country Pubs Limited. He is also a director of Murray Vernon Holdings Limited, Murray Vernon Limited, and Nimtech Global Ventures Limited.

John Campbell, Non-Executive Director, age 62

John Campbell is currently non-executive chairman of The Cavanagh Group plc, a specialist financial advisory company which completed the acquisition of Ernst & Young Financial Management and came to AIM during Mr. Campbell's chairmanship. John is also a director of Edinburgh Air Centre Limited, Brand 2020 Limited, a small management consultancy, and Circus Capital Fund.

John spent 26 years with Scottish Mutual Assurance plc between 1975 and 2001. In 1992 John was appointed general manager of Marketing and Sales, responsible for Scottish Mutual plc, Scottish Mutual International and Pegasus Assurance Limited and was promoted to the Board in 1997. John was also involved in the acquisition of Scottish Provident Society and became World Wide Sales Director for the augmented group.

The Directors intend to appoint a non-executive chairman in due course and until such time John Campbell will chair the Board.

5 AVIATION REGULATORY REQUIREMENTS

In order to operate, a UK registered airline requires an Operating Licence, an Air Operator's Certificate and, for flights outside of the EEA, a Route Licence. Fly First will be required to meet all three requirements, the criteria for which are outlined below:

Operating licence

Until 1 January 1993, air services between EU Member States were regulated in accordance with the terms of ASAs entered into on this bilateral basis by pairs of states. By agreement between the member states of the EU, this bilateral regime was progressively liberalised through a series of three "packages" of measures, the last of which (known as the "third package") completed the creation of the "single aviation market" in the EU. The principal effect of the third package, which took effect on 1 January 1993, was to dismantle the bilateral regime by establishing common rules for the licensing of air carriers in the EU and by permitting EU licensed air carriers ("Community air carriers") to operate services freely between points in the EU and to set fares and tariffs in accordance with their own commercial judgement. Community air carriers are no longer required to be owned and controlled by nationals of the state by which they are licensed but may be owned and controlled by any EEA nationals. In parallel with the establishment of the single aviation market, measures applying EU competition law to air transport were introduced so that air transport became subject, in particular, to Articles 81 (prohibition of anti-competitive agreements) and 82 (prohibition of abuse of a dominant position) of the Treaty of Rome 1957 and to EU merger regulation. By virtue of the European Economic Area Agreement which came into force on 1 January 1994, Norway, Iceland and Liechtenstein, although not members of the EU, became subject to the single aviation market regime, thus extending the single aviation market to the EEA. Furthermore, with effect from 1 June 2002, Switzerland is now essentially treated as part of the EU for the purposes of aviation legislation (including related competition law aspects) following the entry into force on that date of an agreement made between the European Commission and Switzerland. However, air services to, from and within other non-EEA European states, as well as states outside Europe remain subject to the relevant bilateral agreement.

Fly First has applied for an operating licence pursuant to the EC Licensing Regulation 2407/92.

The validity of Fly First's operating licence depends, *inter alia*, on Fly First's ability to demonstrate that it is majority owned and effectively controlled at all times by EEA nationals and that it is "financially fit" by

standards required by the EC Licensing Regulation. Any company which participates in a controlling interest in a Community air carrier must also satisfy the requirements as to the nationality of ownership and control. If these nationality requirements are not maintained, the CAA has a statutory duty to refer the matter to the Secretary of State who might direct the CAA to suspend or revoke Fly First's operating licence. Furthermore, the CAA could suspend or revoke Fly First's operating licence on grounds of financial fitness or any other requirements of the EC Licensing Regulation.

A United Kingdom Operating Licence can only be granted to an air operator meeting the following requirements:

Place and nature of business

An Operating Licence may be granted only to an air operator whose principal place of business and registered office (if any) are within the territory of the licensing state. Further, the main occupation of the licence holder must be solely air transport or air transport combined with other aviation related activities. The Directors believe that Fly First will meet these requirements.

Nationality of ownership and control

A holder of an Operating Licence must be majority owned and effectively controlled by EEA member states or the nationals of EEA member states.

Finance

Before an Operating Licence is granted, airlines must demonstrate their financial fitness. The Directors have set out their funding requirements in order to demonstrate to the CAA that they will have sufficient funding to meet these requirements. The CAA has given a decision letter to the Company as set out in Part VII of this Prospectus.

Once a licence is granted, the CAA will in most cases continue to monitor the holder's finances and may revoke the licence of any licence holder that it considers no longer has sufficient resources to carry on its business.

Insurance

Before an Operating Licence is granted, an applicant must provide evidence that it has in place adequate passenger insurance to cover any potential liability in respect of death or injury to passengers in the event of an accident, as well as insurance against third party damage. The CAA has minimum levels of insurance cover for different kinds of operators. Once a licence is granted the licence holder must ensure that it keeps appropriate insurance in place.

Safety – Air Operator's Certificate

An Operating Licence cannot be granted until the applicant holds an Air Operator's Certificate granted by the CAA's Safety Regulation Group. The overriding requirement is to satisfy the CAA that the operator can operate a safe and reliable airline.

Air Operator's Certificate

The application process involves (i) writing an operations manual and maintenance exposition; (ii) ensuring that sufficient and suitably qualified management and staff are retained; (iii) training those management and staff; (iv) ensuring that suitable contracts are in place in respect of simulator training; (v) flight planning; (vi) maintenance; and (vii) ground handling. Fly First intends to contract external specialists to assist in these areas.

Route Licence

An airline operating to and from non EEA States must also hold a Route Licence. Unlike an Operating Licence, a Route Licence requires the holder of the Route Licence to be controlled by UK citizens.

As Fly First intends to operate between London and New York, it will require a Route Licence (which the Directors have already applied for). Objections can be made to an application within 21 days of the publication of the application by the CAA. Fly First's application was published on 19 October 2004 and no objections were received during the 21 day time period.

The Directors have submitted the Fly First business plan and financial projections to the CAA. Following consideration of these documents the CAA has given a decision letter to the Company as set out in Part VII of this Prospectus.

Other regulatory requirements

The United Kingdom / United States of America Air Services Agreement ("ASA")

Currently, all flights between the UK and the US are covered by the ASA, although the European Commission now has the mandate to negotiate an air services agreement between all EU states and the US. Under the ASA, capacity and multi airline designation are only controlled in respect of Heathrow and Gatwick. As Fly First intends to operate from London Luton, the Directors expect that it will be possible for the UK Department for Transport to designate Fly First as a UK operator on the London to New York route.

Airport regulation

Both London Luton and Newark are public use airports and, as such, all users must be treated in a non-discriminatory manner. Certain airports are constrained by runway capacity and airlines are allocated specific times or "slots" for take-offs and landings, preference being given on a "grandfather" basis to existing operators. Neither London Luton nor Newark is constrained by runway capacity at the times Fly First wishes to operate. Newark is constrained by the availability of check-in desks. However, Fly First has received an indication that facilities are available to allow a departure time which meets the proposed schedule.

6 INVESTMENT INFORMATION

Significant tax benefits available to qualifying investors

The Directors have structured Fly First so that there is scope for the investments of some Applicants to qualify under the Enterprise Investment Scheme ("EIS"). EIS Shares are Ordinary Shares which the Directors believe are capable of qualifying for relief under EIS and provisional advance assurance in respect of the Company's trade has been provided by the Inland Revenue. EIS has a number of tax benefits for qualifying Applicants further details of which are set out in Part III of this document. Applicants who believe they may qualify for EIS relief are strongly advised to consult their own taxation advisers.

Other benefits

Upon successful conclusion of the Offer the Directors intend to look at what benefits can be provided by the Company for the Shareholders. These benefits may include free or discounted flights and other privileges.

Costs

Based on the Minimum Subscription, the issue costs (including introductory commission payable to Intermediaries) will be a maximum of 6.3 per cent. of the gross funds raised under the Offer.

Dividend policy

It is the intention of the Company that the Ordinary Shares should benefit from the achievement of capital growth. Under the EIS rules, capital gains arising on EIS Shares should be free of tax to qualifying investors who hold the EIS Shares for a minimum period of three years from the date of issue of the EIS Shares or, if later, three years after the commencement of commercial operations. The Directors project that the Company will have distributable reserves in Year 3 and intend to review their dividend policy at that time.

Investor returns and exit strategy

The Directors intend to pursue two objectives in terms of Shareholders' returns and exit. The principal objective will be to maximise returns to investors over a 2 to 5 year investment period.

The Directors will also aim to create some liquidity for Shareholders who have a shorter investment horizon. Accordingly, it is their intention to seek the admission of Fly First to AIM at an appropriate time. The Directors believe this is likely to be within 18-36 months of the Closing Date but not before the availability of Year 1's audited financial statements. In the opinion of the Directors, admission to AIM will not only be likely to provide increased liquidity for Ordinary Shares, but also raise the profile of the Company and potentially enhance the attractiveness of Fly First as an investment opportunity. The Directors will only pursue a quotation on AIM if market conditions are supportive and if an appropriate valuation of the Company can be achieved. In order to achieve admission to AIM, the Company would be required to satisfy the requirements of the AIM Rules applicable at that time. Shareholders should note that John Campbell, a Non-Executive Director, has experience of an AIM flotation as he was chairman of the Cavanagh Group plc at the time of its flotation on AIM in 2001. Alternatively, the Directors may consider a trade sale or some other strategic arrangement.

PART II

THE OFFER

1 Structure of the Offer

Fly First is seeking a total equity subscription of between £22 million and £25 million in order to (i) meet the costs of raising new equity capital; and (ii) finance its fixed and working capital requirements.

Fly First has already raised £282,780 as initial capital from the Founders. Certain Founders have also made financial contributions totalling £340,000 and made loans to, or guaranteed bank facilities of, the Company, totalling £40,000. The Company expects to raise a further £111,220 from the Founders, conditional on the Minimum Subscription being achieved.

The Offer will be for a Minimum Subscription of £22 million and a Maximum Subscription of £25 million and will open on 23 March 2005 and, unless extended, close on 10 June 2005.

Of the total to be raised under the Offer, Ordinary Shares up to the value of £16,000,000, less the gross assets of Fly First immediately after allotment and the value of 1,112,200 Ordinary Shares currently under option, can comprise EIS Shares. On this basis, the Directors forecast a cap of approximately £15,650,780 being applied to EIS Shares. The balance of any funds raised will be Non-EIS Shares.

Upon the Offer becoming unconditional there will be an initial issue of Ordinary Shares valued at the greater amount of the aggregate subscription price of EIS Shares applied for (subject to a cap of approximately £15,650,780) and £14,266,000 which will be allocated by the Directors approximately proportionately between successful Applicants for those Ordinary Shares. In the first instance, Ordinary Shares will be issued to satisfy, as far as it is possible, applications for EIS Shares. The balance of the monies raised through the Offer will be placed in an escrow account under the control of Bell Lawrie who will only be able to release the funds to Fly First once Bell Lawrie has received such evidence as it may reasonably request that the Company has met the conditions set out in the Escrow Agreement, details of which are given in paragraph 4 below. If these conditions are not met then the escrow account monies will be returned to Applicants.

Following confirmation that the conditions of the Escrow Agreement have been met, monies will be paid out of the escrow account to the Company which will apply these monies to issue the balance of the Ordinary Shares applied for, being Non-EIS Shares. The second allotment is expected to be made approximately five months after the first allotment.

Upon successful conclusion of the Offer the Directors intend to look at what benefits can be provided by the Company for Shareholders. These benefits may include free or discounted flights and other privileges.

2 Share capital

Fly First has an authorised share capital of £3,000,000 divided into 30,000,000 Ordinary Shares of which 2,827,800 have already been issued at a price of 10p per share to raise £282,780. Options have been granted in respect of an additional 1,112,200 Ordinary Shares, which will also be subscribed at a price of 10p per Ordinary Share and will be exercisable within 3 business days of the allotment of the first tranche of Ordinary Shares following the Closing Date.

Additionally, approximately 4 per cent. of the issued Ordinary Share capital of the Company following the Offer will be reserved to incentivise and retain any additional non-executive directors and key employees or service providers. The current Directors will not be eligible to subscribe for or be awarded such Ordinary Share capital. If these Ordinary Shares are granted under option, the option price will not be less than the market value of the Ordinary Shares at the date of granting the options. If these Ordinary Shares are issued as shares, the subscription price will not be less than the market value of the Ordinary Shares at the date of issue.

3 Offer for subscription

The Offer is between a minimum of 17,600,000 Ordinary Shares and a maximum of 20,000,000 Ordinary Shares at a price of 125p per Ordinary Share. The Offer is therefore expected to raise between £22,000,000 and £25,000,000. Assuming the Minimum Subscription is achieved, expenses of and incidental to the Offer (including commissions at the rate of 3 per cent. of the Issue Price of the Ordinary Shares payable to Intermediaries) are estimated at £1,383,000. The net proceeds will therefore be a minimum of £20,617,000. Assuming the Maximum Subscription is achieved, the expenses of and incidental to the Offer (including commissions at the rate of 3 per cent. of the Issue Price of the Ordinary Shares payable to Intermediaries) are estimated at £1,473,000. The net proceeds will therefore be a minimum of £23,527,000.

The Directors have determined that the Minimum Subscription (of £22 million) must be raised to provide the sums required to be provided in respect of:

- (i) expenses of and incidental to the Offer (including commissions payable to Intermediaries at the rate of 3 per cent. of the Issue Price of Ordinary Shares) estimated at £1,383,000;
- (ii) preliminary expenses payable by the Company;
- (iii) the repayment of monies borrowed from John Campbell (in respect of preliminary expenses payable by the Company);
- (iv) lease deposits and fit-out costs on 2 aircraft; and
- (v) working capital and initial trading losses.

Applicants are invited to apply for either EIS Shares or Non-EIS Shares or a combination of EIS Shares and Non-EIS Shares. As indicated above, the total value of EIS Shares that may be allotted by Fly First at the Issue Price is projected to be limited to £15,650,780. To the extent that the application for EIS Shares exceeds the number of available EIS Shares, the Directors will allocate EIS Shares to all EIS Share applications in the approximate proportion of that application relative to the available EIS Shares. Where an application for EIS Shares is scaled back in this way, the balance of shares applied for will be allotted as Non-EIS Shares.

By applying under the Offer, Applicants agree that, in the event of over subscription, and a subsequent scaling-back of their application, they will accept a balance of Non-EIS Shares.

Payment will be held in the “Capita IRG Plc: A/C Fly First plc Offer for Subscription” until such time as the Minimum Subscription of £22,000,000 under the Offer is received. Should this Minimum Subscription not be received by the Closing Date, all funds will be returned to Applicants within 30 days of a final determination of the sum received under the Offer being calculated not to have reached the Minimum Subscription. In the event of the Offer being over-subscribed, the subsequent allotments of Ordinary Shares will be scaled back by the Directors at their absolute discretion. Applicants will be informed of the total number of Ordinary Shares they will be entitled to receive and the basis upon which this entitlement has been calculated. The appropriate partial refunds will be made at that time.

4 Escrow Agreement

Most of the regulatory approvals required by Fly First will be conditional upon the Company already having in place its capital base and management infrastructure together with certain of its key assets, including, for example, its leased aircraft. The Directors cannot guarantee that, even if the Minimum Subscription is raised, all of the conditions required by the regulatory authorities can be fulfilled, or even if they were to be fulfilled, that all or some of the approvals will be granted. Accordingly, to lessen the risk to Applicants, the Directors plan that the allotments of certain of the Ordinary Shares pursuant to the Offer will be delayed.

In the first allotment of Ordinary Shares, immediately following the Offer becoming unconditional, up to approximately 12,520,624 EIS Shares will be allotted. This will effectively mean that, in the first case, and to comply with the EIS rules, all Applicants who applied for EIS Shares will be allotted EIS Shares in proportion to their desired number of EIS Shares relative to the total number of EIS Shares applied for. To the extent that EIS Shares with a value, at the Issue Price, of £14,266,000 or less are applied for under the Offer, Non-EIS Shares will also be allotted in the first allotment.

To the extent that funds are not used to allot Ordinary Shares in the first allotment, these will be held in an escrow account under the control of Bell Lawrie which will only be able to release funds to the Company if and when Bell Lawrie is satisfied that the Company has met the following conditions as set out in the Escrow Agreement, namely:

- granting of an AOC to the Company; and
- receipt by Bell Lawrie of a written application for the funds from the Company.

Provided the above conditions are met, the balance of the capital sum in the escrow account will, at this point, be transferred to the Company and will be applied to the allotment of the balance of the applications for Ordinary Shares. The Directors believe that they can achieve receipt of an AOC within 5 months of the Offer becoming unconditional. In the event that the conditions set out above cannot be met by the last business day of the thirteenth month after the Offer becomes unconditional or the Directors resolve prior to that date that Fly First cannot develop an adequate asset and management infrastructure, the capital sum in the escrow account will be returned to the Receiving Agents who will return monies to all Applicants to the extent that they have not been allotted Ordinary Shares. Interest accrued on the escrow account will be retained for the benefit of Fly First and paid to the Company on a monthly basis. The interest sums received by the Company will be applied alongside the sums received from the first allotment of shares towards early development costs and the costs of obtaining regulatory approvals.

In the event that the Company has not been granted its AOC (and therefore the capital sum in the escrow account cannot be transferred to the Company), the Directors have undertaken to convene an extraordinary general meeting of the Company to consider what action requires to be taken in order to protect shareholder value. Please see the summary of the Offer Agreement in Part VI paragraph 5(i)(i) for further details.

5 Other

Applicants' attention is drawn to Part III of this document regarding taxation matters. This sets out general information on how taxation benefits may arise under the Enterprise Investment Scheme in respect of Ordinary Shares.

Applicants' attention is also drawn to the restrictions in the Articles of Association on transferring Ordinary Shares to a competitor of the Company, and limitations on share ownership by non-UK nationals, which are summarised in paragraph 3(k) of Part VI of this document.

PART III

TAXATION CONSIDERATIONS FOR INVESTORS

Under the Offer, Applicants can elect to receive some or all of their subscription as EIS Shares. There are only up to approximately 12,520,624 of EIS Shares being offered and applications for EIS Shares may be scaled back and Non-EIS Shares issued in their place. There is, however, no certainty that any individual will qualify for relief under EIS in relation to any Ordinary Shares subscribed under the Offer.

1 Dividends

Under current United Kingdom taxation legislation, no withholding tax will be deducted from dividends paid by the Company.

Individual Shareholders who are resident in the United Kingdom for tax purposes will receive the benefit of a notional tax credit equal to 1/9 of the amount of the dividend received. This tax credit cannot be reclaimed. A Shareholder will pay no further tax on the dividend if he is a lower or basic rate taxpayer. A higher rate taxpayer will pay an additional 25 per cent. on the net dividend (i.e. 32.5 per cent. on the aggregate of the dividend received plus the notional tax credit, less the tax credit).

Subject to certain exceptions relating to traders in securities, corporate Shareholders who are resident in the United Kingdom for tax purposes will not be subject to tax in respect of any dividend received.

Subject to certain exemptions for Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man and the Channel Islands and certain others, the right of a non-UK resident Shareholder to a tax credit in respect of any dividend received from the Company, and to reclaim repayment of any part of that tax credit, will depend on the existence and terms of any relevant double tax convention concluded with the United Kingdom. Shareholders who are not resident in the United Kingdom should consult their own tax advisers concerning their tax liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so.

2 Capital gains tax

Non-qualifying for EIS relief

To the extent that the Company or a Shareholder fails to meet the qualifying conditions for EIS relief, capital gains tax will be payable on any gain realised on those Ordinary Shares. Assuming the Company is a qualifying trading company under Schedule A1 of the Taxation of Chargeable Gains Act 1992, business asset taper relief may be available on the Ordinary Shares. Once held for two years, full business asset taper relief ought to be available. Should any loss arise, this should be available either to (i) offset against any capital gains realised in the year of disposal; or (ii) carry forward to utilise against any future gains.

Qualifying for EIS relief

Exemption from capital gains tax

Any capital gain realised on a disposal of Ordinary Shares (in respect of which EIS income tax relief was given and not withdrawn) after the three year qualifying holding period will be exempt from capital gains tax.

Capital gains tax deferral relief

To the extent to which a UK-resident Applicant's subscription qualifies for EIS relief, he may make a claim to defer paying tax on all or part of a chargeable gain realised on the disposal of any asset by investing the amount of the gain or part of the gain in those Ordinary Shares. There is no limit on the amount of gain which can be deferred. The Ordinary Shares must be issued within one year before and three years after the date of the disposal which gives rise to the gain or the date when a previously deferred gain crystallises. The gain is deferred until there is a chargeable event such as a disposal of Ordinary Shares or an earlier breach of the EIS rules.

Loss relief against income or gains

Where a loss is incurred by a Shareholder on the first disposal of Ordinary Shares in respect of which EIS income tax relief was given and not withdrawn, the loss (calculated after deducting the amount of income tax relief received from the cost of the investment) may be set against taxable income for the year of disposal or for the previous tax year at the election of the investor. Alternatively, the loss may be offset against capital gains realised in the tax year of disposal. Any excess loss may be carried forward and utilised against future capital gains.

3 Income tax and inheritance tax

To the extent that the conditions for EIS relief are satisfied in respect of Ordinary Shares issued pursuant to the Offer, the following reliefs will be available:

Income tax relief

Individuals can obtain income tax relief on the amount subscribed for Ordinary Shares (up to a maximum subscription of (currently) £200,000). The relief is currently given a rate of 20 per cent. of the amount subscribed but cannot exceed a Shareholder's tax liability before certain other reliefs. Part of the relief (up to a maximum of £25,000 of investment) can be carried back to the previous tax year if the Ordinary Shares are issued between 6 April and 5 October. The date of issue will be treated as the date on which the shareholding is entered in the Company's share register.

Inheritance tax

Provided the Ordinary Shares in the Company qualify for business property relief for inheritance tax purposes and these Ordinary Shares are held for two years, full business property relief ought to be available.

This summary gives only a brief outline of the reliefs available under EIS and does not set out the conditions which must be satisfied by the Applicant and the Company in order for an Applicant to qualify for the reliefs under EIS. The summary is not a substitute for a potential investor obtaining professional advice before applying for Ordinary Shares.

4 Application for EIS relief

Provisional EIS advance assurance in respect of the Company's trade has been provided by the Inland Revenue. Once the Company has been trading for four months, the Directors will make a formal EIS application and, assuming the application is accepted by the Inland Revenue, it is envisaged that the EIS 3 certificates required by the investors to claim relief should be available, subject to Inland Revenue working practices, in the second quarter of 2006.

5 General Summary Only

The above section is only intended as a general summary of tax law and practice, as at the date of this Prospectus, applicable to individual Shareholders who are the absolute beneficial owners of a shareholding in the Company and its applicability will depend upon the particular circumstances of each Shareholder. In particular, the summary may not apply to certain classes of Shareholder (such as financial institutions). It should not be treated as legal or tax advice and, accordingly, any Shareholder who is in any doubt as to his tax position should consult his professional adviser.

PART IV

RISK FACTORS AND FINANCIAL ASSUMPTIONS

Potential investors should carefully consider the risks described below before making a decision to invest in the Company. It should be noted that this list is not exhaustive and that other risk factors will apply to an investment in the Company. If any of the following risks actually occur, Fly First's business, financial condition and/or results of future operations could be materially adversely affected. In such circumstances, the value of any investment in the Company could decline and Shareholders could lose all or part of their investment. There can be no guarantee that the Company will ever achieve significant revenues or profitability. This document contains forward-looking statements that involve risk and uncertainties. The Company's actual financial results and overall performance could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by the Company which are described below and elsewhere in this document.

1 General considerations

- The investment opportunity described in this Prospectus may not be suitable for all recipients, in light of their personal circumstances. Accordingly, investors are recommended to take appropriate independent professional advice, including from an investment adviser authorised under the Financial Services and Markets Act 2000.
- There is no, nor will there be any immediate, market for the Ordinary Shares of the Company and, accordingly, it may be difficult for an individual to obtain reliable market-based information about the value of his interest in the Company.
- Because there is not, nor will there be, any immediate market for the Ordinary Shares, opportunities for Shareholders to dispose of their Ordinary Shares will be severely constrained.
- The Company has no previous operating history and the business in which the Company will be engaged is highly competitive and involves significant risk. Although Fly First will operate so as to minimise such risks, it should be noted that the value of Ordinary Shares in the Company may go down as well as up and it is possible that an investor will not get back all of or a part of his investment in the Company.
- An investment in the Ordinary Shares will not be covered by The Financial Services Compensation Scheme run by the Financial Services Authority nor (so far as the Directors are aware) by any other compensation scheme.
- No guarantee is given or implied that the investment objectives of the Company will be achieved.
- There can be no assurance that the Company will pay dividends in the future or as to the level of any future dividends, as these will be dependent on the Company's actual earnings, financial position and other prevailing factors.

2 Considerations for EIS investors

- Fly First has obtained provisional advance assurance from the Inland Revenue in respect of the Company's trade. However, none of the Company, the Directors, or the Company's advisers gives any warranties or undertakings that EIS relief will be available or that, if given, such relief will not be withdrawn.
- Under EIS rules, the Company is required to have employed 80 per cent. of its net funds within 12 months of the date of commencing its qualifying trade, and the remaining 20 per cent. within the subsequent 12 months. If the Company fails to employ these levels of funds within the required timescale, the Company will have breached EIS regulations and tax relief could be withdrawn from investors.

- Levels, bases of, and reliefs from taxation are subject to change and the tax reliefs referred to in this prospectus are those currently applying. Should the laws regarding EIS change then any reliefs previously obtained may be lost.
- If the Company ceases to carry on the business outlined in this document during the three year period from the allotment of new Ordinary Shares, this could prejudice the qualifying status of the Company under the EIS rules. This situation will be closely monitored with a view to preserving the Company's qualifying status, but this cannot be guaranteed.
- Circumstances may arise where the Directors believe that the interests of the Company are not best served by acting in a way that preserves the EIS relief (including capital gains tax deferral). In such circumstances, the Company cannot undertake to conduct its activities in such a way designed to preserve any such relief claimed by Investors.

3 Considerations relating to the Company's industry and market

- Aviation is a volatile and, therefore, high risk, business sector and, historically, aviation companies have been volatile and high risk investments. Airlines have high fixed costs in fleet and crewing commitments while revenues are sensitive to fluctuating market demands, currency, exchange rates and fuel prices. The aviation industry is very exposed to unpredictable external events, such as terrorism, disease, weather conditions and aircraft failure. All of these can significantly impact passenger demand and aircraft operations.
- *The Directors can give no assurances that Fly First will be immune from any of the factors that cause the aviation sector to be volatile and risky.*
- The Directors' financial projections are subject to inherent risk as the business model is untested. Critical determinants include the willingness of premium customers to switch to a departure from London Luton at prices close to those offered by traditional full service airlines operating out of Heathrow and Gatwick, competitor responses and the ability of Fly First to deliver a consistent, reliable and superior service.
- Fly First will be dependent on its ability to recruit and retain high quality managers and staff. The Directors cannot guarantee that, over time, Fly First will always be able to recruit and retain *management and staff of the required quality or to offer them terms of employment that they find satisfactory.*
- Airline companies are vulnerable to engineering failures that can render their aviation equipment unserviceable. Particularly in the early days, Fly First intends to have adequate stand-by facilities available, particularly with the availability of a backup aircraft, and intends to ensure a high standard of engineering services both in the United Kingdom and United States. In their financial projections, the Directors have provided for costs amounting to 2.5 per cent. of direct operating costs to cover the cost of re-routing passengers onto other airlines in case of cancellation of Fly First flights and this provision could rise to 20 per cent. of direct operating costs within the current financial structure. However, it must be recognised that, particularly in its early stages, the Company will not have access to a fleet size and resources equivalent to those of the established operators with which it is competing.
- *Fly First will enter into operating leases on two Boeing 757-200s. To the extent that interest rates impact on the operating lease agreements that Fly First enters into, the Company will be subject to increases in interest rates. The Directors believe that they may be able partially to offset the cost of increased lease costs arising as a result of interest rate rises through increased ticket prices but can give no assurances that they will be able to adjust their ticket prices rapidly enough or in proportion to rising interest rates so as to offset the adverse impact on cash flows or profitability of short term rises in interest rates.*
- The Directors are aware that the London to New York route is highly competitive and that Fly First will be a small airline in comparison to its main rivals, delivering a niche service. The Directors have considered the main potential competitor responses (outlined in section 3 of Part I of this document) in deriving their financial projections but can give no assurances that competitor airlines will not

engage in short-term un-commercial business strategies that might undermine Fly First's commercial rationale.

- The Directors project that the majority of the Company's expenditure will be denominated in Dollars while most of its revenue will be earned in Sterling. Fly First will therefore be exposed to volatility in the Dollar: Sterling exchange rate. The Directors are aware that, to the extent that they can sell flights in the United States earning Dollars, they will have a natural hedge to their Dollar expenditure and intend to set an appropriate hedging policy to mitigate further against the volatility in the Dollar: Sterling exchange rate. The Directors have, in their financial projections, assumed an exchange rate of US\$1.72:£1.00 and, assuming that 40 per cent. of sales are made in Dollars, believe that the funding structure can accommodate a weakening of Sterling to US\$1.32:£1. However, the Directors can give no assurances that they will be able to offset the adverse impact on cash flows or profitability of short term fluctuations in exchange rates.
- Fuel costs are significant to aviation companies. The price of aviation fuel is dependent upon the price of oil. Oil prices can be volatile, especially at times of war and terrorist activity and the impact of higher oil prices is generally, and immediately, reflected in higher aviation fuel prices. The Directors intend to set an appropriate hedging policy to mitigate against the volatility in oil prices; however they can give no assurances that they will be able to adjust their ticket prices rapidly enough or in proportion to rising fuel costs so as to offset the adverse impact on cash flows or profitability of short term rises in oil prices.

4 Considerations relating to the Company's key financial assumptions

- The Directors have determined that the Minimum Subscription (of £22 million) must be raised to provide the sums required to be provided in respect of:
 - (i) expenses of and incidental to the Offer (including commissions payable to Intermediaries at the rate of 3 per cent. of the Issue Price of Ordinary Shares) estimated at £1,383,000;
 - (ii) preliminary expenses payable by the Company;
 - (iii) the repayment of monies borrowed from John Campbell (in respect of preliminary expenses payable by the Company);
 - (iv) lease deposits and fit-out costs on 2 aircraft; and
 - (v) working capital and initial trading losses.
- On the basis of their financial projections the Directors believe that their net proceeds on the basis of the Minimum Subscription will provide financial headroom of £3.1 million.
- The Directors consider a critical risk area for the Company is the period between the Offer becoming unconditional and the start of commercial operations. In order to comply with the timetable to meet the CAA requirements for the granting of an AOC and start up of commercial operations, the Directors are required to source suitable aircraft, contract and manage two complete internal refits and recruit operational staff, as well as negotiating and finalising all commercial contracts. Any delay in the procurement of the aircraft or the fit out materials is likely to lead to a delay in the granting of an AOC and the start of commercial operations. The Directors believe that the Board has appropriate resources at its disposal to meet the timetable requirements, however the Board will be dependent on parties out with its direct control.
- The Directors are projecting a five month period between the Offer becoming unconditional and the commencement of commercial operations. Any delay in launch over and above this five month period, for example a delay in designation by the UK Department for Transport, would have a detrimental effect on the cashflow of the business. Within their projections, the Directors have estimated that, should the Company achieve the Minimum Subscription, they could delay the launch of commercial operations by up to 14 months after the Offer becoming unconditional with no revenue and no flight operation costs before the cash reserves were fully exhausted. This would be dependent on the Directors taking appropriate mitigating actions, such as postponing recruitment and marketing spend (both of which are within the Directors' control) to reduce the impact of any delays.

- The Directors are in discussions with operators of the two Private Terminals at London Luton and believe that, following the Offer becoming unconditional, they will successfully conclude negotiations for Fly First to adapt one of the existing terminals to deliver the customer proposition in time for the start of commercial operations. The Directors can give no assurances that they will be able to secure the use of a Private Terminal in order to deliver the customer proposition set out in Part I of this document.
- Net revenue is derived from a blend of full fares, restricted fares and appropriately discounted corporate rates, and is net of commissions paid to travel agents. The Directors believe that their average projected return fare of £3,360 (after corporate discounts but before commissions) will be competitive in relation to the business class fares of the main carriers on the London to New York route and do not intend to publish significantly discounted fares. The Directors believe that their financial projections reflect fares appropriately discounted for corporate discounts and commissions.
- Revenue is the key sensitivity in Fly First's proposition as a large proportion of direct operating costs and overheads are fixed for the airline to comply with its regulatory requirements. The Directors' breakeven calculations, based on average fare prices (net of commissions) and 678 return flights per annum in Years 2 and 3, have determined that an average of just below 16 passengers per flight would be required to cover the direct and fixed operating costs and overheads in Years 2 and 3. The marginal profitability per passenger over this number is therefore high in relation to the average fares used in the projections.
- In their projections, the Directors have assumed an average load factor of 22 per cent. in Year 1 of commercial operations (an average of 10.6 passengers per flight), rising to 40 per cent. and 52 per cent. respectively in Years 2 and 3 when Fly First intends to operate two daily return services on weekdays. A reduction in the Directors' forecast load factor by 15 per cent. would, during Year 2, fully absorb the financial resources of the Company (on the basis of the Minimum Subscription) should the Directors be unable to effect the mitigating actions which it has already identified.
- The Directors financial projections assume fuel costs of US\$1.45 per US gallon and a Sterling exchange rate of US\$1.72 to £1.00. The Directors estimate that fuel prices would need to rise by 40 per cent. above this level for Fly First to absorb all its financial resources during Year 2.
- Fuel prices have recently reached historical highs resulting in many airlines levying fuel surcharges on passengers. It is not the Directors' intention that Fly First will levy fuel surcharges on customers but they recognise that, should fuel prices rise significantly from current levels, they will be required to take such action as necessary (including levying fuel surcharges) to offset the impact on the financial resources of the Company.

PART V

FINANCIAL INFORMATION ON THE COMPANY

Deloitte 

Deloitte & Touche LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

The Directors
Fly First Plc
4th Floor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

The Directors
Bell Lawrie
(a division of Brewin Dolphin Securities Limited)
7 Drumsheugh Gardens
Edinburgh
EH3 7QH

21 March 2005

Dear Sirs

Fly First Limited ("the Company")

We report on the financial information of the Company set out below. This financial information has been prepared for inclusion in the Prospectus to be dated 22 March 2005 of the Company in connection with the Offer for Subscription of up to 20,000,000 Ordinary Shares at 125 pence per Ordinary Share.

Basis of preparation

The financial information set out in this report, which has been prepared on the basis set out below and in accordance with applicable United Kingdom generally accepted accounting principles, is based on the audited financial statements of the Company for the 234 day period from incorporation on 14 June 2004 to 2 February 2005, to which no adjustments were considered necessary.

Responsibility

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

The Directors of the Company are responsible for the contents of the Prospectus in which this report is included.

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

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Company as at 2 February 2005 and of its losses for the period then ended.

Consent

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

PROFIT AND LOSS ACCOUNT

		Period ended 2 February 2005 £ 000
	Notes	
Pre-trading expenses	2	(114)
Net operating expenses	2	(87)
Other operating income	2	120
		<hr/>
Operating loss		(81)
Net interest receivable		2
		<hr/>
Loss on ordinary activities before taxation		(79)
Tax on profit on ordinary activities		—
		<hr/>
Loss on ordinary activities after taxation	4	(79)
		<hr/>

BALANCE SHEET

		As at 2 February 2005 £ 000
	Notes	
Current assets		
Other debtors		21
Cash at bank and in hand		423
		<u>444</u>
Creditors: amounts falling due within one year		
Accruals		(60)
Total assets less current liabilities		<u>384</u>
Capital and Reserves		
Called up share capital	3	283
Profit and loss account	4	101
Equity shareholders' funds		<u>384</u>

CASH FLOW STATEMENT

		Period ended 2 February 2005 £ 000
	Notes	
Net cash outflow from operating activities	9	(42)
Returns on investments and servicing of finance	10	2
Cash outflow before use of financing		<u>(40)</u>
Financing		
Issue of ordinary shares		283
Capital contribution		180
Increase in cash in the period		<u>423</u>

NOTES TO THE FINANCIAL INFORMATION

1. Accounting convention

The financial information set out in this report has been prepared under the historical cost convention, in accordance with applicable accounting standards generally accepted in the United Kingdom. The financial information has been prepared for the period from 14 June 2004 to 2 February 2005.

The balance sheet has been prepared on the going concern basis on the assumption that the Offer becomes unconditional. Should the Offer not prove successful, no material adjustments to the balance sheet as stated would arise on the basis that the Company will immediately be put into voluntary liquidation.

2. Pre-trading history

The Company was incorporated in Scotland on 14 June 2004 as Dunwilco (1163) Limited (registered number SC269250) as a private company limited by shares. On 20 October 2004 the Company's name was changed to Fly First Limited and, on 10 February 2005, the Company was re-registered as a public company and changed its name to Fly First plc.

The Company issued approximately 2.8 million Ordinary Shares during the period to its Founders for an aggregate consideration of £282,780. Called up share capital is described in further detail at note 3 below.

The Company received a capital contribution in the period of £180,000 from John Campbell (a Director and Shareholder of the Company). In addition, the Company received a contribution in the period of £120,000 by means of a gift from Owen McLaughlin (a private individual). The gift was made without recourse and conferred no obligations on the Company. The transaction is accounted for as Other Operating Income within the profit and loss account.

The Company has incurred certain pre-trading expenses during the period between incorporation and 2 February 2005, including £114,000 in respect of the cost of acquiring the Fly First concept from Earlybird Aviation Limited (a company owned by Keith Campbell and John Campbell) on 28 September 2004. In addition, the Company has incurred operating expenses of £87,000 during the period, mainly in relation to consultancy and other professional fees. None of these amounts have been capitalised.

3. Called up share capital

Ordinary Shares of 10 pence each

	As at 2 February 2005	
	Number	Value £'000
Authorised	30,000,000	3,000
Issued	2,827,800	283

The Company was incorporated on 14 June 2004, with share capital comprising one Ordinary Share of £1. On 22 September 2004, this was subdivided into 10 Ordinary Shares of 10 pence each, and on 23 September 2004, transferred to John Campbell (the "Subscriber's Shares").

Also on 23 September 2004, 1,799,990 Ordinary Shares of 10 pence each were allotted at par to the founder shareholders, including certain Directors. On 8 November 2004, a further 1,027,800 Ordinary Shares were issued at par to certain Directors. The shareholding of each of the Directors is summarised below:

Directors' shareholdings	Number of Ordinary Shares held at start of period	Number of Ordinary Shares held as at 2 February 2005
Ordinary Shares of 10 pence each		
Hamish Taylor	Nil	540,000
Peter Villa	Nil	540,000
Keith Campbell	Nil	180,000
Bill Troup	Nil	540,000
Lord Wade	Nil	90,000
John Campbell	Nil	667,800

The authorised share capital of the Company was increased from £1,000 as at the date of incorporation to £350,000 on 22 September 2004, further increased to £2,000,000 on 5 November 2004 by the creation of an additional 16,500,000 Ordinary Shares, and further increased to £3,000,000 by the creation of an additional 10,000,000 Ordinary Shares on 11 November 2004.

Share options have been granted to Keith Campbell in respect of an additional 592,200 Ordinary Shares, which will be exercised at a price of 10 pence per Ordinary Share, within 3 business days of the first allotment of the Ordinary Shares following the Closing Date.

4. Combined reconciliation of movement in shareholders' funds and statement of movements on reserves

	Issued share capital £'000	Profit and loss account £'000	Total £'000
At beginning of period	—	—	—
Share issue	283	—	283
Capital contribution	—	180	180
Loss for the period	—	(79)	(79)
At 2 February 2005	283	101	384

5. Contingent liabilities

If the Offer becomes unconditional, there will be further fees payable totalling £484,000.

6. Directors' contracts

During the period, four Directors were each entitled to receive remuneration of £2,234 implying total Directors' remuneration of £8,937. There were no benefits in kind, or retirement benefits payable during the period.

7. Post balance sheet events

On 25 February 2005, Owen McLaughlin entered into a guarantee with The Royal Bank of Scotland plc in terms of which he agreed to guarantee the repayment of the Company's current account overdraft facility to the extent of £38,000. In exchange, on 21 March 2005, he was granted options over 380,000 Ordinary Shares at an exercise price of 10 pence per Ordinary Share. The options are exercisable by Owen McLaughlin or the Company within three business days of allotment of the first tranche of Ordinary Shares following the Closing Date.

On 25 February 2005, John Campbell agreed to make an interest-free loan facility of £22,000 available to the Company for a period of 3 months, such loan to be repayable on demand. In exchange, on 21 March 2005, he was granted options over 140,000 Ordinary Shares at an exercise price of 10 pence per Ordinary Share. The options are exercisable by John Campbell or the Company within three business days of allotment of the first tranche of Ordinary Shares following the Closing Date. On 25 February 2005, the sum of £2,000 was drawn down by the Company from the facility.

On 25 February 2005, the Company received a further capital contribution of £8,000 from John Campbell. In addition, on 25 February 2005, the Company received a further contribution of £32,000 by means of a gift from Owen McLaughlin. The gift was made without recourse and conferred no obligations on the Company.

8. Related party transactions

During the period, the Company paid £114,000 to acquire the Fly First concept from Earlybird Aviation Limited, as described in Note 2 above. A further payment of no more than £20,000 is due to Earlybird Aviation Limited in respect of the acquisition of the concept, contingent upon the Offer becoming unconditional. This amount is included within the total contingent liability balance as described in Note 5 above. John Campbell and Keith Campbell are directors of both Earlybird Aviation Limited and the Company.

During the period, John Campbell made a capital contribution of £180,000 to the Company. In addition, on 25 February 2005, John Campbell agreed to make an interest-free loan facility of £22,000 available to the Company for a period of 3 months, and made a further capital contribution of £8,000, as described above.

9. Net cash inflow from Operating Activities

	Period ended 2 February 2005 £ 000
Operating loss	(81)
Increase in other debtors	(21)
Increase in creditors	60
Net cash outflow from operating activities	(42)

PART VI

ADDITIONAL INFORMATION

1 Incorporation

- (a) The Company was incorporated in Scotland under the Act on 14 June 2004 (registered number SC269250) as a private company limited by shares. The Company was incorporated with the name "Dunwilco (1163) Limited" and, on 20 October 2004, the Company's name was changed to Fly First Limited.
- (b) On 10 February 2005 the Company was re-registered as a public limited company and the Company's name was changed to "Fly First plc".
- (c) The registered office of the Company is at 4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN.
- (d) The Company has entered into service contracts with each of Keith Campbell, Bill Troup, Peter Villa and Hamish Taylor. The Company does not have, nor has it had since its incorporation, any other employees.
- (e) The Company has no subsidiaries.
- (f) The liability of the members of the Company is limited.

2 Share and loan capital

- (a) The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each, of which one was taken by the subscriber to the memorandum of association of the Company (the "Memorandum of Association").
- (b) Pursuant to resolutions passed by the Company on 22 September 2004:
 - (i) the authorised share capital of the Company was increased from £1,000 to £350,000 by the creation of an additional 349,000 ordinary shares of £1.00 each;
 - (ii) the directors were generally and unconditionally authorised pursuant to Section 80 of the Act to allot relevant securities (as defined in the said Section 80) up to a maximum nominal amount of £349,999, such authority to expire on the fifth anniversary of the date of the passing of the resolution (the Company being allowed to make an offer or agreement which would or might require relevant securities (defined as aforesaid) to be allotted after the foregoing authority has expired); and
 - (iii) the 350,000 ordinary shares of £1.00 each in the capital of the Company were sub-divided into 3,500,000 ordinary shares of £0.10 each ("Ordinary Shares").
- (c) Following the passing of the resolutions referred to in paragraph 2(b) above, on 23 September 2004 the 10 Ordinary Shares held by the subscriber to the Memorandum of Association were transferred to John Campbell for an aggregate consideration of £1.00. These Ordinary Shares were transferred to John Campbell in part satisfaction of his application for 360,000 Ordinary Shares. A further 359,990 Ordinary Shares were allotted fully paid to John Campbell at a subscription price of £0.10 per Ordinary Share.

Also on 23 September 2004, 1,440,000 Ordinary Shares were allotted fully paid to the following applicants (in each case at a subscription price of £0.10 per Ordinary Share) in the numbers shown against each of their names:

Name of applicant	Number of Ordinary Shares
Bill Troup	540,000
Peter Villa	360,000
Keith Campbell	180,000
William Oulton, Lord Wade of Chorlton, KT	90,000
Susan Tennant	54,000
Kathleen Ann Cameron	45,000
Catherine Sarah Campbell	45,000
Susie Elizabeth Jane Field	36,000
John Joseph Greenwood	36,000
Thomas Cowper Johnson	36,000
James Charles McClurg	18,000

In total, therefore, 1,799,990 Ordinary Shares were allotted fully paid on 23 September 2004 and 10 Ordinary Shares were transferred to John Campbell. The total issued share capital of the Company on 23 September 2004 was 1,800,000 Ordinary Shares.

- (d) On 8 November 2004, a further 1,027,800 Ordinary Shares were allotted fully paid to the following applicants (in each case at a subscription price of £0.10 per Ordinary Share) in the numbers shown against each of their names:

Name of applicant	Number of Ordinary Shares
Hamish Taylor	540,000
John Campbell	307,800
Peter Villa	180,000

Also on 8 November 2004, options over 592,200 Ordinary Shares were granted at a subscription price of £0.10 per Ordinary Share to Keith Campbell. The options are exercisable within three business days of allotment of the first tranche of Ordinary Shares following the Closing Date.

The total issued share capital of the Company on 8 November 2004 was 2,827,800 Ordinary Shares.

- (e) Pursuant to resolutions passed by the Company on 5 November 2004, *inter alia*:
- (i) the authorised share capital of the Company was increased from £350,000 to £2,000,000 by the creation of an additional 16,500,000 Ordinary Shares;
 - (ii) the Directors were generally and unconditionally empowered, pursuant to and in accordance with Section 80 of the Act to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £1,820,000 such authority to expire on the fifth anniversary of the date of passing of the resolution; and
 - (iii) the Directors were empowered, pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94(2) of the Act) under the authority referred to in sub-paragraph (ii) above as if Section 89(1) of the Act did not apply to any such allotment, such power to expire on the fifth anniversary of the date of passing of the resolution such power being limited to the allotment of Ordinary Shares in connection with the Offer, and the Company may, at any time prior to the expiry of such power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of such an offer or agreement as if such power had not expired.
- (f) Pursuant to resolutions passed by the Company on 11 November 2004, *inter alia*:
- (i) the authorised share capital of the Company was increased to £3,000,000 by the creation of an additional 10,000,000 Ordinary Shares;
 - (ii) the Directors were generally and unconditionally empowered, pursuant to and in accordance with Section 80 of the Act to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £2,658,000 such authority to expire on the fifth anniversary of the date of passing of the resolution; and
 - (iii) the Directors were empowered, pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94(2) of the Act) under the authority referred to in sub-paragraph (ii) above as if Section 89(1) of the Act did not apply to any such allotment, such power to expire on the fifth anniversary of the date of passing of the resolution such power being limited to the allotment of Ordinary Shares in connection with the Offer, and the Company may, at any time prior to the expiry of such power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of such an offer or agreement as if such power had not expired.
- (g) On 25 February 2005, Owen McLaughlin entered into a guarantee with The Royal Bank of Scotland plc in terms of which he agreed to guarantee the repayment of the Company's current account overdraft facility to the extent of £38,000. In exchange, on 21 March 2005, Owen McLaughlin was granted options over 380,000 Ordinary Shares at a subscription price of £0.10 per Ordinary Share. The options are exercisable by Owen McLaughlin within three business days of allotment of the first tranche of Ordinary Shares following the Closing Date.
- (h) On 25 February 2005, John Campbell agreed to make an interest-free loan facility of £22,000 available to the Company for a period of three months such loan to be repayable on demand. On 25 February 2005, the sum of £2,000 was drawn down by the Company from the facility. This sum, and any other sums drawn down by the Company from the facility, shall be repaid from the proceeds of the Offer. In exchange, on 21 March 2005, John Campbell was granted options over 140,000 Ordinary Shares at a subscription price of £0.10 per Ordinary Share. The options are exercisable by John Campbell within three business days of allotment of the first tranche of Ordinary Shares following the Closing Date.
- (i) At the date of this Prospectus the authorised share capital of the Company is £3,000,000 divided into 30,000,000 Ordinary Shares; and the issued share capital of the Company is £282,780 divided into 2,827,800 Ordinary Shares, all fully paid.

- (j) Following the Offer, assuming Maximum Subscription, the issued share capital of the Company will be £2,282,780 divided into 22,827,800 Ordinary Shares.
- (k) Save as disclosed in this Prospectus, since the date of its incorporation, no share or loan capital of the Company has been issued for cash or for a consideration other than cash and no such capital of the Company is now proposed to be issued, and, save as aforesaid, no commissions, discounts, brokerages or other special terms have been granted by it in connection with the issue or sale of any of its share or loan capital.
- (l) The Ordinary Shares will be in registered form.
- (m) Temporary documents of title will not be distributed in connection with the Offer.

3 Memorandum and Articles of Association

The Memorandum of Association provides that the Company's principal object is to carry on business as a general commercial company. The objects of the Company are set out in full in Clause 3 of the Memorandum of Association.

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

(a) Issue of shares

Subject to the provisions of the Act relating to authority, pre-emption rights and otherwise and of any resolution of the Company in general meeting passed pursuant thereto, all unissued shares in the Company are at the disposal of the Directors and they may allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper.

(b) Variation of rights

Special rights attached to any class of shares may, subject to the provisions of the Act, be varied or abrogated either with the consent in writing of the holders of three fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class (but not otherwise). The quorum for such a class meeting is two persons at least holding or representing by proxy one third in nominal amount of the issued shares of the class.

(c) Alteration of capital

The Company may by ordinary resolution (i) increase its capital by such sum to be divided into shares of such amounts as the resolution shall prescribe, (ii) consolidate and divide all or any of its share capital into shares of larger or smaller amounts, (iii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person and diminish the amount of its capital by the amount of the shares so cancelled, (iv) sub-divide its shares or any of them into shares of smaller amounts than is fixed by the Memorandum of Association and (v) the resolution may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have preferred, deferred or other special rights or restrictions when compared with the others. Subject to the requirements of the Act, the Company may purchase its own shares (including any redeemable shares). Every contract for the purchase by the Company of, or under which it may become entitled or obliged to purchase, its own shares shall, in addition to such authorisation as may be required by law, be sanctioned by an extraordinary resolution passed at a separate general meeting of the holders of each class of shares in issue convertible into equity share capital of the Company. The Company may reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner authorised by law.

(d) Transfer of shares

All transfers of shares which are held in certificated form are to be effected by instrument in writing in any usual or common form or in any other form acceptable to the Directors. The instrument of transfer must be executed by or on behalf of the transferor and (in the case of a partly paid share) by or on behalf of the transferee. All transfers of shares which are not held in certificated form shall be effected by means of a relevant system. The Directors may in their absolute discretion and without assigning any reason therefore decline to register any transfer of a share held in certificated form which is not fully paid, or on which the Company has a lien, or which is in respect of more than one class of share, or is not duly stamped, or is not deposited at the place where the register of members of the Company (the "Register of Members") is situated for the time being. The Directors may decline to register any transfer of a fully paid share where they have reasonable grounds for believing the transferee or persons connected with him are carrying on business in competition with the Company.

The Board may also refuse to register any transfer of a share if, in the opinion of the Directors, such share would, upon transfer, become, or would be capable of being treated as, an Affected Share (see sub-paragraph (k) below),

provided that in the case of a share held in uncertificated form the Directors may only exercise their discretion not to register a transfer if permitted to do so by regulation 23 of the Uncertificated Securities Regulations 1995.

Unless the Board otherwise determines, a transfer of shares will not be registered if the transferor or any other person appearing to be interested in the transferor's shares has been duly served with a notice under Article 166 (requiring disclosure of interests in shares), has failed to supply the information required by such notice within 14 days and the shares in respect of which such notice has been served represent at least 0.25 per cent. of their class, unless the member is not himself in default as regards supplying the information required and proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer, or unless such transfer is by way of acceptance of a take-over offer, in consequence of a sale on a recognised stock exchange or a sale to an unconnected party.

Save as set out above, the Articles of Association contain no restrictions on the free transferability of fully paid shares of the Company provided (1) that transfers are in favour of not more than four transferees, and (2) that the Directors may in their absolute discretion and without assigning any reason therefor decline to register any transfer of a share to a transferee in circumstances where the Directors have not been satisfied (whether by the provision of any information, the giving of any confirmation, warranty or representation or the meeting of any other requirement of the Directors, in each case required by the Directors in their sole opinion) that in their sole opinion the status or identity of the transferee does not, or could not be expected to, prejudice the investment objectives of the Company or any tax benefits or rights which the Company is or may become entitled to (a "Specified Event"). The Articles of Association further provide that in the event that the Directors provide a shareholder with written notice that, in their sole discretion, they consider that a Specified Event subsists in relation to that shareholder, such shareholder must within 14 days procure the transfer of his entire holding of shares to a person or persons to whom a Specified Event would not apply (were they a shareholder), failing which the Company may (without prejudice to any other remedies available to it) as agent for the shareholder arrange the sale of his shares at such price and on such other terms as the Directors acting in good faith consider represents a fair value for such shares. The registration of transfers may be suspended and the Register of Members may be closed by the Directors but the Register of Members may not be closed for more than 30 days in any year.

(e) Voting rights

Subject to any special rights or restrictions as to voting attached to any shares, on a show of hands every member who is present in person has one vote and on a poll every member who is present in person or by proxy and entitled to vote has one vote for each share of which he is the holder. No member is, unless the Directors otherwise determine, entitled in respect of shares held by him to vote at a general meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company if any call or other sum presently payable by him to the Company in respect of such shares remains unpaid. A proxy need not be a member of the Company. An instrument appointing a proxy must be in writing and must be left at the place specified not less than 48 hours before the time appointed for the holding of the meeting.

(f) Directors

- (i) Unless otherwise determined by ordinary resolution of the Company, the minimum number of Directors is two and the maximum eight. At any time a majority of the Directors must be UK nationals.
- (ii) A Director is not required to hold any shares of the Company by way of qualification for office. A Director who is not a member of the Company is nevertheless entitled to receive notice of and attend and speak at general meetings.
- (iii) The Directors may from time to time appoint one or more of their body to be the holder of any executive office or make any appointment by them of a Director conditional upon his accepting any executive office on such terms and for such periods as they may determine and, without prejudice to the terms of any contract between him and the Company, may at any time revoke any such appointment.
- (iv) The Directors may be paid all reasonable expenses incurred in or about the business of the Company. Any Director who is appointed to an executive office or who serves on any committee or who otherwise performs services which, in the opinion of the Directors, are outside the scope of the ordinary duties of a Director may be paid such extra remuneration as the Directors may determine.
- (v) The Company may pay pensions or other retirement, superannuation, death or disability benefits, annuities or other allowances, emoluments or benefits to (i) any Director, ex-Director, officer or ex-officer of the Company or of any company which is a subsidiary of the Company or is allied to or associated with the Company or any such subsidiary or (ii) their husbands, wives, widowers, widows children, families, dependants and personal representatives.
- (vi) The Directors may purchase and maintain insurance for the benefit of past or present Directors, officers, employees, servants, or agents of the Company or any subsidiary or holding company of the Company

from time to time, or any company allied to or associated with the Company or any such subsidiary or holding company from time to time, or any company in which the Company or such subsidiary, holding, allied or associated company has an interest from time to time or any predecessor in business of the Company or any such subsidiary, holding, allied or associated company or company in which the Company or such company has or had an interest, or subsidiary undertaking of the Company or such other company or subsidiary undertaking are interested, including insurance against any liability incurred by such persons for any act/omission in the execution and/or discharge of their duties and/or exercise of their powers or otherwise in relation to their duties, powers or offices in relation to the Company or any such other company or subsidiary undertaking.

- (vii) Subject to the provisions of the Act, a Director may be a party to or interested in any contract or arrangement to which the Company is a party or in which it is in any way interested, and may hold and be remunerated for any office or place of profit (other than that of Auditor) under the Company or any other company in which the Company is in any way interested. A Director may act by himself or for any firm of which he is a member in any professional capacity for the Company or any such other company, be remunerated therefor and retain for his own use and benefit any profits and advantages accruing to him. A Director may be a director or other officer or otherwise interested in any company promoted by the Company or in which it may be interested and, unless otherwise agreed, is not accountable to the Company or the members for any remuneration, profit or other benefit thereby received by him.
- (viii) No person shall be or become incapable of being appointed or re-appointed as a Director of the Company by reason only of having attained the age of 70 years, nor shall any special notice be required in connection with the appointment or the approval of such person.
- (ix) At the first annual general meeting of the Company all the Directors are to retire from office and at each annual general meeting thereafter each Director who is disqualified in terms of the Articles of Association and one third of the other Directors for the time being (or, if their number is not a multiple of three, the number nearest to, but not greater than one third) are to retire from office.
- (x) A Director is not entitled to vote in respect of any contract or arrangement or any other proposal whatsoever in which he has 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 is not to be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting. These restrictions are subject to exceptions set out in the Articles of Association (such as concerning the giving of securities in respect of obligations incurred by a Director for the benefit of the Company, or an offer for securities in which he is interested as underwriter) and the Company may by ordinary resolution suspend or relax the restrictions to any extent or ratify any transaction not duly authorised by reason of a contravention of such restriction.
- (xi) The quorum necessary at a board meeting for the transaction of business may be fixed by the Directors and unless fixed at any other number shall be two. The Articles of Association provide that no board meeting will be quorate unless a majority of the Directors present are UK nationals. In the case of an equality of votes at a board meeting, the chairman of the meeting shall have a second or casting vote but in exercising his casting vote, must vote with the side comprising the greater number of UK nationals.

(g) Borrowing powers

The Directors may exercise all the powers of the Company to borrow money, to pledge or grant any security over all or any part of its undertaking, property and uncalled capital and, subject to the Act, to issue debentures, debenture stock and other securities whether terminable, redeemable or perpetual and whether outright or as collateral security for any guarantee, debt, liability or obligation of the Company or of any third party.

(h) Dividends

- (i) The Company may by ordinary resolution declare dividends but no dividends are payable except out of the profits available for distribution or in excess of the amount recommended by the Directors.
- (ii) If and so far as in the opinion of the Directors the profits of the Company justify such payments, the Directors may pay the fixed dividends on any class of shares carrying a fixed dividend expressed to be payable on fixed dates on the half yearly or other dates prescribed for the payment thereof and may also from time to time pay interim dividends on shares of any class on such amounts and on such dates and in respect of such periods as they think fit.
- (iii) Any dividend unclaimed after a period of 12 years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

(i) Untraced shareholders

The Company shall be entitled to sell at the best price then reasonably obtainable the shares of a member or the share to which a person is entitled by transmission on death or bankruptcy if, during a period of 12 years, at least

three dividends have become payable in relation to such shares and during those 12 years no such dividend has been claimed and during such period of 12 years and within a further period of three months from the date of advertisements giving notice of its intention to sell such shares placed after the expiry of the period of 12 years, the Company has received indication neither of the whereabouts nor the existence of such member or person. The Company shall be obliged to account to the former member or person entitled by transmission to the net proceeds of sale of such shares but no trust shall be created in respect of the debt and no interest shall be payable to account for any money earned on the net proceeds.

(j) Winding up

In the event of the winding up of the Company, the liquidator may, with the authority of an extraordinary resolution, divide among the members in specie or in kind the whole or any part of the assets of the Company and may determine how such division shall be carried out as between the members of the Company or different classes of the members.

(k) Limitations on share ownership

The Directors are given the powers described below under the Articles to take action to ensure that the amount of shares held in the Company by non-UK nationals does not reach a level which could jeopardise the Company's entitlement to continue to hold or enjoy the benefit of any authority, permission, licence or privilege which it or any of its subsidiaries holds or enjoys and which enables an air service to be operated (each an "Operating Right"). In particular, in order to obtain and retain an operating licence and a route licence, a UK designated air carrier must be majority owned and effectively controlled by UK nationals. The Articles of Association provide a "Permitted Maximum" on the number of shares of the Company which may be owned by non-UK nationals to protect the Company's Operating Rights. The Permitted Maximum is presently set at 45 per cent. and may be varied by the Directors from time to time.

The Articles of Association allow the Directors to relax the ownership limitations such that rather than restrict ownership by non-UK nationals, the limitations will only apply to non-EEA nationals.

The Company will maintain a separate register (the "Separate Register") of shares in which non-UK nationals, whether individuals, bodies corporate or other entities, have an interest (such shares are referred to as "Relevant Shares" in the Articles of Association). An interest in this context is widely defined. The Directors can require relevant members or other persons to provide them with information to enable a determination to be made by them as to whether shares are, or are to be treated as, Relevant Shares. If such information is not available or forthcoming or is unsatisfactory then the Directors can, at their discretion, determine that shares are to be treated as Relevant Shares. Registered holders of shares are also obliged to notify the Company if they are aware that any share which they hold ought to be treated as a Relevant Share for this purpose.

The Directors may determine that it is necessary to take steps to protect any Operating Right or the status of the Company by reason of the fact that, broadly, an Operating Right has been or is threatened to be refused, withheld, suspended or revoked or the aggregate number of Relevant Shares is such that an Operating Right may be refused, withheld, suspended or revoked or the ownership of the Company is otherwise such that an Operating Right may be refused, withheld, suspended or revoked. In such circumstances the Directors can *inter alia*:

- (i) remove any Director;
- (ii) identify those shares which give rise to the need to take action and treat such shares as Affected Shares (see below); or
- (iii) set a Permitted Maximum on the number of Relevant Shares which may subsist at any time (which may not, save in certain specified circumstances, be lower than 40 per cent. of the total number of issued shares) and treat any Relevant Shares in excess of this Permitted Maximum as Affected Shares (see below). The Directors may serve a notice ("an Affected Share Notice") in respect of any Affected Share. An Affected Share Notice can if it so specifies have the effect of depriving the registered holder of the rights to attend, vote and speak at general meetings which he would otherwise have had as a consequence of holding such shares. Such an Affected Share Notice can if it so specifies also require the recipients to dispose of the shares (so that the relevant shares will then cease to be Affected Shares) within 21 days or such longer period as the Directors may determine. The Directors are also given the power to transfer such shares themselves where there is non-compliance with the Affected Share Notice.

The rights of the Directors referred to above shall apply until such time as the Directors resolve that grounds for the making of a determination have ceased to exist and they shall thereupon withdraw such determination.

The Permitted Maximum has been set at 45 per cent. initially. This Permitted Maximum may be varied by the Directors. At any time when the Directors have resolved to vary the Permitted Maximum or deal with shares as Affected Shares, or relax the ownership limitations, they shall send a notice to all the individual members of the Company or alternatively publish in at least one national newspaper in the United Kingdom (and in any country in which the Ordinary Shares are listed) notice of the determination and of any Permitted Maximum. The Directors

shall send a notice to all the individual members of the Company or alternatively publish, from time to time, information as to the number of shares, particulars of which have been entered on the Separate Register.

The Directors may not register any person as a holder of shares unless such person has furnished to the Directors a declaration, together with such evidence as the Directors may require, stating (a) the name and nationality of any person who has an interest in any such share and, if the Directors require, the nature and extent of such interest; or (b) such other information as the Directors may from time to time determine. The Directors may decline to register any person as a shareholder if satisfactory evidence or information is not forthcoming.

4 Directors' and other interests

- (a) The beneficial interests of the Directors and the persons connected with them (within the meaning of Section 346 of the Act) which have been notified to the Company pursuant to Sections 324 and 328 of the Act or are required to be disclosed in the register as maintained pursuant to Section 325 of the Act in the issued share capital of the Company and the existence of which is known to, or could be ascertained by, any Director having made due and proper enquiry as at 21 March 2005 (the latest practicable date prior to the publication of this Prospectus) are as set out below:

Name	Number of Ordinary Shares	Number of Ordinary Shares over which options granted
Hamish Taylor	540,000	—
Peter Villa	540,000	—
Keith Campbell	180,000	592,200
Bill Troup	540,000	—
Lord Wade of Chortton	90,000	—
John Campbell	667,800	140,000

- (b) Save as referred to in paragraph 4(a) above, no Director, nor any person connected with the Directors within the meaning of Section 346 of the Act, has any interest, beneficial or non-beneficial, in the present issued share capital of the Company.
- (c) Each of Hamish Taylor, Peter Villa, Keith Campbell and Bill Troup has entered into a service contract with the Company and Lord Wade and John Campbell have each entered into a non-executive letter of appointment with the Company.
- (d) The following executive Directors have entered into the following agreements:
- On 8 November 2004 ("Commencement Date"), Keith Campbell entered into a service agreement with the Company as Commercial Director. Mr Campbell will be paid a nominal salary from the Commencement Date until the date the Offer becomes unconditional, but payment will be suspended and paid in arrears in the calendar month following the Closing Date. Thereafter Mr Campbell will receive a basic annual salary of £100,000, such salary to be reviewed annually. Mr Campbell is also entitled to a contribution of 8 per cent. of basic salary to his personal pension scheme, and private health care cover. The service agreement is terminable by Mr Campbell giving not less than 18 months' written notice during the 6 month period commencing on the Commencement Date, thereafter not less than 12 months' written notice or by the Company giving statutory notice in writing to Mr Campbell, provided that if the Offer becomes unconditional on or before 10 June 2005 (or such other date as may be agreed), the notice entitlement will increase to 12 months in writing. Keith Campbell is entitled to 30 days' holiday in addition to the usual English public holidays. The service agreement also contains certain restrictions following termination.
 - On 11 November 2004 ("Commencement Date"), Bill Troup entered into a service agreement with the Company as Finance Director. Mr Troup will be paid £8,000 by way of a monthly salary from the Commencement Date until 31 May 2005 (or such other date as may be agreed). If the Offer becomes unconditional on or before 10 June 2005 (or such other date as may be agreed) Mr Troup will receive a basic annual salary of £120,000, such salary to be reviewed annually. Mr Troup is also entitled to a contribution of 8 per cent. of basic salary to his personal pension scheme, and private health care cover. The service agreement is terminable by Mr Troup giving not less than 18 months' written notice during the 6 month period commencing on the Commencement Date, thereafter not less than 12 months' written notice or by the Company giving statutory notice in writing to Mr Troup, provided that if the Offer becomes unconditional on or before 10 June 2005 (or such other date as may be agreed), the notice entitlement will increase to 12 months in writing. Bill Troup is entitled to 30 days' holiday in addition to the usual English public holidays. The service agreement also contains certain restrictions following termination.

- (iii) On 11 November 2004 ("Commencement Date"), Peter Villa entered into a service agreement with the Company as Operations Director. Mr Villa will be paid a nominal salary from the Commencement Date until the date the Offer becomes unconditional, but payment will be suspended and paid in arrears in the calendar month following the Closing Date. Thereafter Peter Villa is entitled to receive a basic annual salary of £100,000 as Operations Director, such salary to be reviewed annually. Mr Villa is also entitled to a contribution of 8 per cent. of basic salary to his personal pension scheme, and private health care cover. The service agreement is terminable by Mr Villa giving not less than 18 months' written notice during the 6 month period commencing on the Commencement Date, thereafter not less than 12 months' written notice or by the Company giving statutory notice in writing to Mr Villa, provided that if the Offer becomes unconditional on or before 10 June 2005 (or such other date as may be agreed), the notice entitlement will increase to 12 months in writing. Peter Villa is entitled to 30 days' holiday in addition to the usual English public holidays. The service agreement also contains certain restrictions following termination.
- (iv) On 11 November 2004 ("Commencement Date"), Hamish Taylor entered into a service agreement with the Company as Chief Executive Officer. Mr Taylor will be paid a nominal salary from the Commencement Date until the date the Offer becomes unconditional, but payment will be suspended and paid in arrears in the calendar month following the Closing Date. Thereafter Hamish Taylor is entitled to receive a basic annual salary of £195,000, such salary to be reviewed annually. Mr Taylor is also entitled to receive a guaranteed bonus of not less than £15,000 in respect of the first twelve month period following the Closing Date. He is also entitled to a contribution of 8 per cent. of basic salary to his personal pension scheme, and private health care cover. The service agreement is terminable by Mr Taylor giving not less than 18 months' written notice during the 6 month period commencing on the Commencement Date, thereafter not less than 12 months' written notice or by the Company giving statutory notice in writing to Mr Taylor, provided that if the Offer becomes unconditional on or before 10 June 2005 (or such other date as may be agreed), the notice entitlement will increase to 12 months in writing. Hamish Taylor is entitled to 30 days' holiday in addition to the usual English public holidays. The service agreement also contains certain restrictions following termination.
- (e) The following non-executive Directors have entered into the following letters of appointment with the Company:
 - (ii) On 11 November 2004, Lord Wade entered into a non-executive letter of appointment with the Company under which he has agreed to serve as non-executive Director of the Company for not more than 30 business days per annum, for a fee of £25,000 per annum, payable monthly in arrears, to be reviewed annually. The agreement subsists for an initial term of 2 years, and may be reviewed thereafter if both Lord Wade and the Board agree. The terms of appointment set out above are conditional upon the Offer becoming unconditional.
 - (ii) On 11 November 2004, John Campbell entered into a non-executive letter of appointment with the Company under which he has agreed to serve as non-executive Director of the Company for not more than 30 business days per annum, for a fee of £25,000 per annum, payable monthly in arrears, to be reviewed annually. The agreement subsists for an initial term of 2 years, and may be reviewed thereafter if both John Campbell and the Board agree. The terms of appointment set out above are conditional upon the Offer becoming unconditional.
- (f) The Directors estimate the aggregate amounts payable and benefits in kind to be granted to the Directors in the current financial year under the current arrangements to be £158,600.
- (g) Save as disclosed, none of the Directors has any interest in transactions which are or were unusual in their nature or conditions or significant to the business of the Company which have been effected by the Company since its incorporation.
- (h) The Fly First concept was initially developed by Earlybird Aviation Limited ("Earlybird"), a company owned by Keith Campbell and John Campbell, and was acquired at cost from Earlybird by Fly First on 28 September 2004. The sum of £114,018 was paid at this time by Fly First to Earlybird in respect of, *inter alia*, consultants and advisers' fees incurred by Earlybird. Payment by Fly First of the balance of the sum due to Earlybird in respect of the acquisition of the concept, being no more than £20,000, is contingent upon the Offer becoming unconditional. Fly First has also agreed to assume liability for consultancy fees payable by Earlybird to Bill Troup, Apollo Aviation Advisory Limited and Hamish Taylor, as set out in paragraphs (i), (j) and (k) below. No further sums are payable from Fly First to Earlybird in respect of the acquisition of the concept.
- (i) Bill Troup entered into a consultancy agreement with Earlybird Aviation Limited. Following expiry of this consultancy agreement and prior to entering into his service agreement with the Company, Bill Troup provided consultancy services to Earlybird and the Company. At the date of this Prospectus there is an amount of £48,000 outstanding as consultancy fees due by Fly First to Bill Troup. Payment of this amount is contingent on the Offer becoming unconditional. No more fees will be payable under these arrangements.

- (j) Apollo Aviation Advisory Limited ("AAA"), a company in which Peter Villa is the majority shareholder, entered into an agreement with Keith Campbell for the provision of consultancy services to Earlybird. Liability for consultancy fees pursuant to this agreement has been assumed by the Company. At the date of this Prospectus there is an amount of £50,000 outstanding in respect of consultancy fees due to AAA from the Company. Payment of this amount is contingent on the Offer becoming unconditional. No more fees will be payable under these arrangements.
- (k) Hamish Taylor entered into consultancy arrangements with Earlybird and has provided consultancy services to Earlybird and the Company prior to entering into his service agreement with the Company. At the date of this Prospectus there is an amount of £13,500 outstanding as consultancy fees due to Hamish Taylor from the Company. Payment of this amount is contingent on the Offer becoming unconditional. No more fees will be payable under these arrangements.
- (l) On 25 February 2005, John Campbell agreed to make an interest-free loan facility of £22,000 available to the Company for a period of 3 months, such loan to be repayable on demand. On 25 February 2005, the sum of £2,000 was drawn down by the Company from the facility. This sum, and any other sums drawn down by the Company from the facility, shall be repaid from the proceeds of the Offer.
- (m) John Campbell has made three non-repayable financial contributions to the Company, as follows:
 - (i) on 31 January 2005, the sum of £150,000;
 - (ii) on 2 February 2005, the sum of £30,000; and
 - (iii) on 25 February 2005, the sum of £8,000.
- (n) Owen McLaughlin has made two non-repayable financial contributions to the Company in the sums of £120,000 and £32,000. These were made on 2 February 2005 and 25 February 2005 respectively.

5 General

- (a) The Company is not engaged in any litigation or arbitration proceedings and no litigation or claim of material importance is known to the Directors to be pending or threatened either by or against the Company which are having or may have a significant effect on the Company's financial position.
- (b) Save as disclosed herein, there has been no significant change in the financial or trading position of the Company since its incorporation.
- (c)
 - (i) The Directors expect that the gross proceeds raised by the Offer if it is fully subscribed will be £25,000,000.
 - (ii) The anticipated expenses of and incidental to the Offer will be borne by the Company, including printing, distribution costs, professional fees and any commission payable to Intermediaries (as referred to in paragraph (d) below). Assuming the Maximum Subscription, the expenses of and incidental to the Offer are estimated to be £1,473,000. Assuming the Minimum Subscription, the expenses of and incidental to the Offer are estimated to be £1,383,000.
- (d) Commissions at the rate of 3 per cent. of the Issue Price of the Ordinary Shares will be paid by the Company to Intermediaries in respect of successful applications under the Offer.
- (e) Bell Lawrie, Dundas & Wilson CS LLP and Deloitte & Touche LLP have given and have not withdrawn their respective written consents to the issue of this Prospectus with the references to their names in the form and context in which they appear.
- (f) The Directors are of the opinion that, taking into account bank and other facilities and the net proceeds of the Offer (assuming the minimum amount of £20,617,000 is raised, after the payment of expenses of and incidental to the Offer (including commissions at the rate of 3 per cent. of the Issue Price of the Ordinary Shares payable to Intermediaries)), the Company will have sufficient working capital for its present requirements, that is, for at least 12 months following the date of this Prospectus.
- (g) The current financial year of the Company will end on 30 June 2005. The Directors do not intend that the Company will commence trading during its current financial year. The Directors will continue discussions and negotiations with third parties and other preparatory work with a view to commencing operations in late 2005, during the Company's next financial year.

- (h) The monies received from the Founders on or before the date of this Prospectus (comprising subscription monies of £282,780, non-repayable financial contributions totalling in aggregate £340,000 and the sum of £2,000 drawn down, and any additional sums that may be drawn down, under the interest free loan facility of £22,000 (repayable on demand) made available to the Company by John Campbell) and any borrowings from The Royal Bank of Scotland plc pursuant to the Company's overdraft facility have been, and will continue to be, used to meet the expenses of the Company for the period up to the allotment of Ordinary Shares under the Offer.

- (i) Fly First has entered into the following material contracts:

(i) *Offer Agreement*

The terms of Bell Lawrie's appointment as financial adviser to the Company for an initial period of 2 years following the Closing Date, as well as the terms of Bell Lawrie's appointment to approve the Prospectus and any marketing materials to be communicated by the Company for the purposes of the Financial Services and Markets Act 2000, are set out in an offer agreement among the Company, each of the Directors and Bell Lawrie dated 21 March 2005.

The Offer Agreement provides that the Company may not extend the Offer beyond the Closing Date, nor vary or waive any of the conditions of the Offer, nor issue any marketing materials, in each case without the prior written consent of Bell Lawrie. Notwithstanding this the Closing Date may not be extended beyond 30 June 2005.

In terms of the Offer Agreement the Company has agreed to indemnify Bell Lawrie in respect of any losses or claims whatsoever in relation to the Offer (save to the extent that this arises out of Bell Lawrie's fraud or negligence or material breach of the Offer Agreement). In addition, certain warranties and undertakings have been given to Bell Lawrie by each of the Directors and by the Company.

In particular, the Directors have undertaken to Bell Lawrie to procure that, if the Company has not been granted its AOC by the last business day of the thirteenth month after the Offer becomes unconditional, an extraordinary general meeting of the Company shall be convened for the purpose of considering what action requires to be taken in order to protect shareholder value. In this respect the Directors have undertaken to procure that a resolution is put forward to place the Company into members' voluntary liquidation and have further undertaken not to vote on such a resolution.

In addition the Directors have undertaken to Bell Lawrie and the Company that if, at any time after the Offer has become unconditional but before the Company has received its AOC, the Company makes a distribution or *return of capital to its Shareholders*, the Directors shall, *after deducting the subscription price paid by them for Ordinary Shares prior to the date of this Prospectus*, repay the balance of such monies received by them to the Company and shall waive any rights to such balance of monies. The Directors have further undertaken in this respect not to transfer any legal or beneficial interest presently held by them in any shares in the Company in the period prior to the Company receiving its AOC. This undertaking is conditional on the Inland Revenue having confirmed to the Company in writing that the granting and implementation of such undertaking, and waiver, shall in no way prejudice or prevent any shares issued pursuant to the Offer from qualifying for relief under the EIS Rules.

(ii) *Escrow Agreement*

In terms of the Escrow Agreement, if the Minimum Subscription is received by the Closing Date then, immediately following the first allotment of EIS Shares and/or Non-EIS Shares in terms of the Offer, up to the sum of £7,734,000 will be placed in a separately designated interest bearing deposit account with the Bank of Scotland, controlled by Bell Lawrie (the "Escrow Account"). All interest accrued on the Escrow Account will be paid to the Company on a monthly basis.

The Escrow Agreement provides that Bell Lawrie will, within 5 Business Days of receipt of a written application from the Company (together with satisfactory evidence that the CAA's Safety Regulation Group has granted to the Company an AOC covering the geographic area required to operate between the UK and the USA), remit the sum then standing at credit of the Escrow Account to the Company, together with any interest. However, if the Company is not granted its AOC by the last Business Day of the thirteenth month after the Offer becomes unconditional, or if the Company advises Bell Lawrie before that date that it cannot develop an adequate asset and management infrastructure, then no amount standing at credit of the Escrow Account will be payable to the Company. Such amount, together with interest, will then be returned to the Receiving Agents and the Company will procure that the Receiving Agents return such amount to Applicants as soon as reasonably practicable. The Company agrees to indemnify Bell Lawrie in respect of costs incurred by Bell Lawrie by virtue of its acting in accordance with the Escrow Agreement.

(iii) *Receiving Agents Agreement*

Pursuant to an agreement entered into between the Company and Capita IRG Plc ("Capita") dated 21 March 2005 (the "Receiving Agents Agreement"), Capita has agreed to act as receiving agents in respect of the Offer. In this respect, Capita will receive subscription monies from Applicants and hold such monies on a designated bank account, close the Offer on the Closing Date and, on the instructions of the Company, effect the acceptance of Applications and issue share certificates to successful Applicants. Capita agrees, on the instructions of the Company, to transfer subscription monies to the Company and to the Escrow Account as appropriate, and will also return subscription monies to unsuccessful Applicants.

Capita gives certain undertakings to the Company in the performance of its services under the Receiving Agents Agreement and agrees to indemnify the Company in respect of loss caused by its negligent, wilful or fraudulent act or omission in the performance of its services. The Company agrees to indemnify Capita in respect of loss caused to Capita by the Company's failure to comply with any applicable regulations or legal requirements. Capita's aggregate liability under the Receiving Agents Agreement is limited to the lesser of (i) £1 million and (ii) 10 times the total fee payable to Capita under the Receiving Agents Agreement.

(iv) *Registrars Agreement*

Pursuant to an agreement between the Company and Capita dated 21 March 2005, the Company has appointed Capita to act as its registrar for an initial period of one year. Thereafter the agreement may be terminated by either party by not less than 6 months' notice in writing.

(v) *Bank borrowing facilities*

Pursuant to an agreement between the Company and The Royal Bank of Scotland plc dated 24 February 2005, the Company has available to it an overdraft facility up to an overdraft limit of £38,000. The facility will be reviewed on 31 May 2005 but may be extended by mutual agreement.

6 Availability of the Prospectus

Copies of the Prospectus are available from the Company at its registered office during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) whilst the Offer remains open.

PART VII
LETTER FROM THE CAA



Consumer Protection Group
Finance & Majors

PRIVATE AND CONFIDENTIAL

Mr B Troup
Finance Director
Fly First PLC
4th Floor
Saltire Court
20 Castle Street
Edinburgh
EH1 2EN

24 February 2005

Dear Mr Troup,

TYPE A OPERATING LICENCE AND ROUTE LICENCE APPLICATION

The CAA, in accordance with Article 5 of Council Regulation (EEC) 2407/92 has now considered the information provided in support of Fly First PLC application for a Type A Operating and associated Route Licences.

On the basis of the above, the CAA has concluded that subject to the company meeting the following conditions it has decided to grant the Operating and Route Licences to the company.

1. Confirmation from the company's auditors that at least £22 million has been injected into the company in the form of ordinary share capital since 1 March 2005.
2. Confirmation from the CAA's Safety Regulation Group that the company has been awarded the appropriate Air Operator's Certificate.
3. Confirmation that the company has arranged £300 million passenger, cargo and third party aviation liability insurance, including war risk. I attach a copy of our ATL28 insurance confirmation form. Parts 1-4 of this form will need to be completed by the company's broker, with the questions contained within the licence holder's declaration on page 2 being completed and signed by an authorised signatory of the company.
4. Copies of the aircraft leases agreements, maintenance and fuel contracts confirming that the rates are in accordance with the business plan assumptions. (Please see covering letter).
5. A copy of the change of name certificate.
6. Confirmation that the company can meet the ownership and control criteria of Article 4 of the Council Regulation. In addition as Route Licence applications are required to operate outside the EEA, the company will also need to demonstrate that it is effectively controlled by UK nationals. You will therefore need to provide evidence of the source of funding and the control position to my colleagues in Airline Licensing who I understand have already written to you in this regard.
7. Copies of your proposed ticketing and notices to demonstrate that the company can meet the requirements on passenger liability in respect of Council Regulation 2027/92 as amended by 889/2002.
8. A cheque for £1,000 being the licence grant charge payable to The Civil Aviation Authority.

Please note that if the start date slips significantly beyond September 2005 we will require full details of any additional start-up costs and possibly a fully revised business plan.

CIVIL AVIATION AUTHORITY

Room K206/9, CAA House, 45-59 Kingsway, London WC2B 6TE www.caa.co.uk
Section: 020 7453 6327 Direct Dial: 020 7453 6345 Fax: 020 7453 6322 Email: wilsonp@cpg.org.uk

PART VIII

TERMS AND CONDITIONS OF THE OFFER

1. In these terms and conditions the expression "Prospectus" means this document. Save where the context requires otherwise, terms defined in the Prospectus bear the same meaning when used in these terms and conditions and in the Application Form. These terms and conditions are in addition to any further terms and conditions set out in this Prospectus.
2. (a) The Company invites applications for subscription, on and subject to the terms set out in the Prospectus and in the Application Form, for Ordinary Shares at the Issue Price, free of all expenses and payable in full on acceptance of your application.

(b) The Ordinary Shares issued pursuant to the Offer will rank *pari passu* in respect with the existing issued Ordinary Shares.
3. The contract created by the acceptance by the Company of an application under the Offer will be conditional upon valid applications being received in respect of at least 17,600,000 Ordinary Shares. The Company reserves the right to waive this condition or to reject in whole or in part, any application and/or to withdraw the Offer prior to acceptance of any application.
4. Applicants should enclose a cheque or bankers draft payable to "Capita IRG Plc: A/C Fly First Offer for Subscription" in respect of the remittance due for the Ordinary Shares applied for together with their completed Application Form.

Interest on any cleared funds prior to the allotment of Ordinary Shares will be for the benefit of the Company. In respect of any applications which are rejected, not accepted in full or which do not become unconditional for any other reason whatsoever, the application monies or, as the case may be, the balance thereof will be returned without interest by crossed cheque in favour of the applicant, through the post at the risk of the person entitled thereto.

5. The minimum individual subscription amount which will be accepted is £10,000 and above that, applications must be in multiples of £2,500.
6. Applicants who wish to apply for EIS Shares should indicate the number of EIS Shares applied for where shown on the Application Form. Applicants should note that the overall maximum number of EIS Shares which the Company may issue is approximately 12,520,624 and the maximum subscription amount for EIS Shares for an individual Applicant is £200,000, or 160,000 EIS Shares. If the total number of EIS Shares applied for by Applicants is in excess of this overall maximum, individual applications for EIS Shares will be scaled down as determined by the Directors in their absolute discretion. To the extent their applications for EIS Shares are scaled back, Applicants will receive Non-EIS Shares in their place. Any Applicant who applies for more than 160,000 EIS shares will be deemed to have applied for 160,000 EIS Shares and the balance of his application as Non-EIS Shares.
7. The total number of Ordinary Shares available under the Offer is 20,000,000. Applications above this level may be scaled down on a basis to be determined by the Directors in their absolute discretion.
8. As soon as practicable after the Closing Date, Ordinary Shares will be allotted and issued to Applicants. Up to approximately 12,520,624 EIS Shares will be allotted to Applicants. If fewer than 11,412,800 EIS Shares are applied for, Non-EIS Shares will be allotted in the first allotment. The EIS Shares will be allocated on a basis as determined by the Directors in their absolute discretion.
9. The balance of the subscription monies will be held in an escrow account controlled by Bell Lawrie and such monies will only be released to the Company upon satisfaction or waiver by Bell Lawrie of certain conditions contained in the Escrow Agreement.
10. Upon satisfaction or waiver of the conditions of the Escrow Agreement, the remaining subscription monies will be released to the Company from the escrow account. The balance of the subscription monies will then be applied in issuing Non-EIS Shares to Applicants.

11. By completion and delivery of an Application Form, you (as the Applicant) offer to subscribe for the number of Ordinary Shares specified in your Application Form (or such lesser number for which your application is accepted) at the Issue Price on the terms of and subject to this Prospectus, including these terms and conditions, the Application Form and the Memorandum and Articles of Association of the Company; and (unless otherwise expressly agreed in writing by the Company):
- (a) agree that, in respect of those Ordinary Shares for which your application has been received and is not rejected, acceptance of your application shall be constituted by allotment and that the Directors shall have absolute discretion as to the proportion (if less than in full) of your application for Ordinary Shares which is accepted and issued pursuant to the Offer and (if applicable) as to the respective numbers of EIS Shares and Non-EIS Shares which are issued to you pursuant to the Offer;
 - (b) agree that any definitive document of title or funds returnable to you may be retained pending clearance of your remittance and the completion of any verification of identity required by The Money Laundering Regulations 2003 as amended and that any such monies retained will not bear interest;
 - (c) undertake to provide satisfactory evidence of identity within such reasonable time, to be determined in the absolute discretion of the Company and its agents, to ensure compliance with The Money Laundering Regulations 2003 as amended and warrant that you are not a person engaged in money laundering;
 - (d) authorise the Company to send a share certificate in respect of the number of Ordinary Shares for which your application is accepted and/or a remittance returnable, by post, to the address of the person named as the applicant in the Application Form;
 - (e) warrant that, if you sign the Application Form on behalf of another party, you have due authority to do so on behalf of that other party or entity and such other party or entity will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained herein and undertake to enclose your power of attorney or other document evidencing your authority (or a duly certified copy thereof) with the Application Form;
 - (f) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offer shall be governed by and construed in accordance with Scots law, and that you submit to the jurisdiction of the Scottish Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
 - (g) confirm that in making such application you are not relying on any information or representation in relation to the Company other than the information contained in this Prospectus and accordingly you agree that no person responsible solely or jointly for this Prospectus or any part thereof or involved in the preparation thereof shall have any liability for any such other information or representation;
 - (h) authorise the Company, or any persons authorised by the Company, as your agent, to do all things necessary to effect registration of any Ordinary Shares subscribed by you into your name or into the name of any person in whose favour the entitlement to any such Ordinary Shares has been transferred and authorise any representative of the Company to execute any document required therefore;
 - (i) agree that, having had the opportunity to read this Prospectus, you shall be deemed to have had notice of all information and representations concerning the Company contained herein;
 - (j) warrant that, if you are an individual, you are not under the age of 18;
 - (k) warrant that, in connection with your application, you have observed the laws of all requisite territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in the Company acting

in breach of the regulatory or legal requirements of any territory in connection with the Offer or your application;

- (l) warrant that your remittance will be honoured on first presentation and agree that if it is not so honoured you will not be entitled to receive a share certificate in respect of the Ordinary Shares applied for unless and until you make payment in cleared funds for such Ordinary Shares and such payment is accepted by the Company in its absolute discretion. You further agree that, at any time prior to the unconditional acceptance of payment by the Company it may (without prejudice to any other rights) avoid the agreement to allot such Ordinary Shares and may allot such Ordinary Shares to some other person, in which case you will not be entitled to any payment in respect of the Ordinary Shares; and
 - (m) warrant that the information contained in the Application Form is accurate.
12. No person receiving a copy of this Prospectus or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form unless in the relevant territory such an invitation could lawfully be made to him or such Application Form could lawfully be used without compliance with any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself as to full observance of the laws of the relevant territory in connection with such application, including obtaining any governmental or other consents which may be required or observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
13. The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or under the securities laws of any State of the United States and the relevant exemptions have not been and will not be obtained under the securities legislation of any province or territory of Canada. The Ordinary Shares may not be offered, sold, renounced, transferred or delivered, directly or indirectly, in the United States or Canada or to or for the benefit of any United States person, or to or for persons in, or resident in Canada. Persons applying for subscription for Ordinary Shares represent and warrant to the Company that they are not a United States person or a resident of Canada and that they are not subscribing for such Ordinary Shares for the account of any such person and will not offer, sell, renounce, transfer or deliver, directly or indirectly, such Ordinary Shares in the United States or Canada or to any such person. As used herein, "United States" means the United States of America (including each of the States and the District of Columbia) and its territories, possessions or other areas subject to its jurisdiction. "Canada" means Canada and all areas subject to its jurisdiction and each province thereof. In addition, the Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended.
14. The dates and times referred to in these terms and conditions may be altered by the Company so as to be consistent with the Offer (as the same may be altered from time to time in accordance with its terms). The Company reserves the right to revise, without notice, the Closing Date. The Company further reserves the right to waive and/or amend any and all of the terms of the Offer (including without prejudice to the foregoing generality, reducing the minimum subscription level for participation in the Offer) in respect of any application without extending the benefit of such concession to any other person.
15. The right is reserved to treat as valid any application not in all respects completed or delivered in accordance with the instructions accompanying the Application Form.

Money Laundering Documentation

To ensure compliance with the Money Laundering Regulations 2003 as amended, the Receiving Agents will require verification of identity from any person lodging an Application Form (the "Applicant") and any person who either (i) tenders payment drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to be acting on behalf of some other person. In the former case verification of the identity of the Applicant will be required. In the latter case, verification of the identity of any person on whose behalf the Applicant appears to be acting will be required.

For individual investors Receiving Agents will require a copy of the Applicant's passport or driving licence (or other photographic identification as detailed in the Application Form), certified as a true copy and being a true likeness of the individual, together with a certified copy of a utility bill dated within the last three months of the date of application that shows the Applicant's name and address.

If the Company has not received evidence satisfactory to it as aforesaid with the Application Form or subsequently, it may reject any such application in which event any remittance submitted in respect of that application will (subject to the requirements of the Money Laundering Regulations 2003) be returned to the Applicant (without prejudice to the rights of the Company to undertake proceedings to recover any loss suffered by them as a result of the failure to produce satisfactory evidence of identity).

Where an Applicant is acting as a nominee or a trustee for another person/entity, the identity of the beneficiary must be established and in these cases appropriate documentary evidence to support the relationship and identification of all the relevant parties should be made available to the Receiving Agents.

The Receiving Agents may have additional money laundering requirements to those given above. The Applicant may have to produce additional evidence of identity at any time, in order to meet the Receiving Agents' requirements. In this situation the Company may have to revert to Applicants or their introducer to acquire this evidence.

The above information is provided by way of guidance to reduce the likelihood of difficulties, delays and potential rejection of an Application Form (but without limiting the Company's right to require verification of identity as indicated above). If an Applicant has any questions regarding the above they should contact their independent financial adviser or introducer who can contact either the Receiving Agents or the Company for further guidance.

Form of Nationality Declaration

To ensure compliance with the regulatory rules regarding the ownership and control of the Company by UK nationals, the Receiving Agents require a declaration of the nationality of each Applicant. It is a term of the Offer that the form of nationality declaration contained within the Application Form be given by, or on behalf of, each Applicant.

16. You acknowledge and understand the meaning and legal consequences of the representations, warranties, agreements, acknowledgments, and undertakings set forth herein and agree to indemnify and keep indemnified the Company, its shareholders, directors, officers, agents, employees, controlling persons and professional advisers from and against any and all losses, claims, actions, damages, liabilities, costs or expenses, including but not limited to legal fees and court costs (collectively, "Claims"), to which any of the foregoing persons may become subject, insofar as such Claims are due to, or arise out of, or are connected directly or indirectly, to any breach of any such representations, warranties, agreements, acknowledgments, or understandings made by you regardless of whether the Claims are brought or caused by you or another party.
17. Upon the Offer becoming unconditional, commission shall be paid to Intermediaries at the rate of 3 per cent. of the Issue Price of the Ordinary Shares in respect of successful applications under the Offer. Intermediaries may elect in writing to Capita Registrars to receive some or all of their commission in the form of Non-EIS Shares. Subject to there being available Non-EIS Shares not otherwise applied for under the Offer, the Directors may at their sole discretion, subject to such election, issue Non-EIS Shares to such Intermediaries, or otherwise as such Intermediaries shall nominate, in full or partial satisfaction of such commission.
18. In the event that more than one stamp is applied to an Application Form (whether or not either or both are subsequently deleted, erased or obscured), commission (if any) will only be payable to the Intermediary whose stamp is first applied (in the opinion of the Company) to the Application Form and only if such stamp is legible.

PART IX

GUIDE TO THE APPLICATION FORM

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

1. Please insert your full name and address and other details requested in BLOCK CAPITALS where shown in section 1 of the Application Form. Application may only be made by persons aged 18 or over.
2. (i) Insert in box (a) in section 2 (in figures) of the Application Form the number of Ordinary Shares for which you are applying in respect of the Offer. Your application must be for a minimum of 8,000 Ordinary Shares and, above that, in multiples of 2,000 Ordinary Shares.
(ii) Insert in box (b) in section 2 (in figures) of the Application Form the number of EIS Shares (maximum 160,000) forming part of the total number of Ordinary Shares for which you are applying in respect of the Offer.
3. Insert in the box in section 3 (in figures) of the Application Form the amount of your payment in respect of the Offer being the amount which represents £1.25 multiplied by the number of Ordinary Shares inserted in box (i) in section 2 (subject to a minimum of £10,000 and, above that, in multiples of £2,500).
4. Sign and date the Application Form in section 5. The Application Form may be signed by someone else on your behalf, if duly authorised by power of attorney to do so, but any power of attorney pursuant to which it is done (or a copy thereof duly certified by a solicitor) must be enclosed for inspection.
5. Please insert your bank details in section 6 of the Application Form. These are required under the Money Laundering Regulations 2003. These details will also be used in the event that funds are returned to Applicants.
6. You must affix to section 7 on the completed Application Form a cheque or bankers' draft for the full amount payable. Your cheque or bankers' draft must be payable to "Capita IRG Plc: A/C Fly First Offer for Subscription" for the amount payable on application inserted in section 3 and should be crossed "A/C Payee". Your cheque or bankers' draft must be drawn in sterling on an account at a bank branch, and must bear the appropriate sort code number in the top right hand corner. The right is reserved to reject any application in respect of which the applicant's cheque or bankers' draft have not been cleared on first presentation. The Application Form may be accompanied by a cheque or bankers' draft drawn by someone other than the applicant, but any monies to be returned will be sent by crossed cheque in favour of the person(s) named in section 1 of the Application Form at his/her permanent address.

Money Laundering Regulations

It is a term of the Offer that, to ensure compliance with the Money Laundering Regulations 2003, that the Receiving Agents require verification of identity from any person lodging an Application Form (the "Applicant") and without prejudice to the generality of the foregoing, in particular any person who either (i) tenders payment by way of cheque or bankers' draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to be acting on behalf of some other person. In the former case, verification of the identity of the Applicant is required. In the latter case, verification of the identity of any person on whose behalf the Applicant appears to be acting is required. Details of the sources of verification material are set out in paragraph 15 of terms and conditions of the Offer which are set out in Part VIII of this document. All money laundering documentation should be attached to section 7 of the Application Form.

If within a reasonable period of time following a request for verification of identity and in any case by no later than 3.00 pm on the relevant date of allotment the Receiving Agents have not received evidence satisfactory to them as aforesaid, the Company with the agreement of the Receiving Agents may, at their absolute discretion, reject any such application in which event the remittance submitted in respect of that application will be returned to the Applicant (without prejudice to the rights of the Company to undertake proceedings to recover any loss suffered by it as a result of the failure to produce satisfactory evidence of identity).

Where possible Applicants should make payment by their own cheque. If a third party cheque, bankers' draft or building society cheque is used, the Applicant should:

- (i) write his/her name and address on the back of the draft or cheque and, in the case of an individual, record his/her date of birth against his/her name; and
- (ii) ask the bank or building society (if relevant) to endorse on the reverse of the draft or cheque the full name and account number of the person whose account is being debited and stamp such endorsement.

The above information is provided by way of guidance to reduce the likelihood of difficulties, delays and potential rejection of an Application Form (but without limiting the Receiving Agents' right to require verification of identity as indicated above).

Form of Nationality Declaration

To ensure compliance with the regulatory rules regarding the ownership and control of the Company by UK nationals the Receiving Agents require a declaration of the nationality of each Applicant. It is a term of the Offer that the form of nationality declaration contained within the Application Form be given by, or on behalf of, each Applicant.

7. **If you have any queries on the procedure for application and payment, you should contact Capita Registrars (telephone: 0870 162 3121) or your normal financial adviser.**
8. **Delivery of Application Form**

Send the completed Application Form together with the cheque(s) or bankers' draft(s) by post, or deliver it by hand, to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received no later than 3.00 pm on 10 June 2005 (unless the Offer is otherwise closed earlier or extended).

If you post your Application Form you are recommended to use first class post and to allow at least two working days for delivery. Photostat or faxed copies of the Application Forms will not be accepted.

9. Intermediaries (as defined on page 6) who are entitled to receive commission should stamp and complete section 8 of the Application Form, giving their full name and address, telephone number and details of their authorisation under the Financial Services and Markets Act 2000 (where appropriate). The right is reserved to withhold payment of any commission if the Company is not, in its sole discretion, satisfied as to the Intermediary's claim.

APPLICATION FORM

PLEASE USE BLOCK CAPITALS

1. Investor details		
Mr. Mrs. Miss or title		
Forename(s) (in full)		
Surname		
Address (in full)		
	Postcode	
Permanent address (if different from address given above)		
	Postcode	

2. I/We apply for (a) Ordinary Shares (minimum 8,000 and above that in multiples of 2,000)

including (b) EIS Shares (maximum 160,000)

(subject to the scaling back provisions set out in the terms and conditions mentioned below) (or any smaller number of Ordinary Shares in respect of which this application is accepted) at the Offer Price of £1.25 per Ordinary Share, payable in full on application on the terms and conditions set out in this Application Form and the Prospectus dated 22 March 2005 (together "the Prospectus") and subject to the Memorandum and Articles of Association of Fly First plc.

3. I/We attach below a cheque or banker's draft for the amount of £
payable to "Capita IRG Plc: A/C Fly First Offer for Subscription" in respect of the above application.

Note: Minimum aggregate subscription price is £10,000.

4. By signing this form I/WE HEREBY DECLARE THAT:

- (i) I/We agree to be bound by the terms and conditions of application contained in the Prospectus to which this application relates.
- (ii) To the best of my/our knowledge and belief, the particulars above are correct.

5. Please enclose:

- 5.1 a cheque or bankers' draft payable to "Capita IRG Plc: A/C Fly First Offer for Subscription" for the amount referred to in section 3 above;
- 5.2 one document from Section A below as verification of the identity of the Applicant; and
- 5.3 one document from Section B below as verification of the current address of the Applicant.

Verification Checklist

IMPORTANT:

Please provide one document from section A and one document from section B below.

Section A:	Section B:
<u>Name and date of birth</u> In each case a copy certified as being a true copy and a true likeness (copies must be in black and white)	<u>Current address</u> <i>(Note: to be original or certified copy, not a photocopy, and dated within the last three months)</i>
Current signed passport	Utility bill (not mobile phone bill)
New style full driving licence with photograph	Bank statement
EEA member state driving licence with photograph	Mortgage statement
	Council tax bill

Please note: corporate Applicants will require to produce different verification documentation and should call Capita Registrars (telephone: 0870 162 3121) or your normal financial adviser.

Signature Date

6. Bank details are required under the Money Laundering Regulations 2003 and will be used in the event that monies being refunded to Applicants.

Name of Bank	
Address of Bank	
Sort Code	
Account Number	

7. Affix here your cheque or bankers' draft for the amount referred to in section 3 above and your money laundering verification documentation referred to in section 5 above.

DELIVERY OF APPLICATION FORM

Send the completed Application Form together with the cheque(s) or bankers' draft(s) and completed form of nationality declaration, by post, or deliver it by hand, to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received no later than 3.00 pm on 10 June 2005 (unless the Offer is otherwise closed earlier or extended).

8. The stamp/name of the first Intermediary should be included in the box below together with the appropriate details listed. Commission at the rate of 3 per cent. of the funds invested will be paid by the Company to Intermediaries, subject to the terms and conditions set out in Part VIII of the Prospectus.

Stamp/name of Intermediary
Address
Telephone No.
Authorised Ref. No.

FORM OF NATIONALITY DECLARATION

The rights of Fly First plc to operate as an air carrier on routes between the UK and the USA could be withdrawn if Fly First ceases to be substantially owned and effectively controlled by UK nationals (i.e. UK citizens holding a UK passport). Accordingly, the Articles of Association of Fly First contain powers which, *inter alia*, may be used to limit the number of, or the exercise of voting and other rights attaching to, shares of Fly First plc in which non-UK nationals own interests and, if necessary, to require their compulsory disposal, and to restrict the transferability of such shares. The Directors of Fly First plc may in the future relax these powers so as to apply to non-EEA nationals rather than non-UK nationals.

The Declaration set forth below must be completed and furnished to Capita Registrars at Corporate Action Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. To complete this Declaration an applicant must:

- (a) tick one of (but not more than one of) box A, box B or box C, as appropriate;

Guidance note for individual applicants:

- (i) If you are a UK passport holder, tick box C
- (ii) If you are a passport holder of an EEA member state other than the UK (i.e. Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden or Switzerland), tick box B
- (iii) Passport holders of any other state should tick box A
- (b) sign this Declaration in the space provided; and
- (c) if the person signing this Declaration is a stockbroker, bank manager, solicitor or other agent for the applicant, complete the "Declaration of Agent" on page 2 hereof.

- ☐ A I/We declare that the shares to be registered in my/our name(s) pursuant to the attached application are both "UK Affected Shares" and "EEA Affected Shares".
- ☐ B I/We hereby declare that the shares to be registered in my/our name(s) pursuant to the attached application are "UK Affected Shares" but not "EEA Affected Shares".
- ☐ C I/We hereby declare that the shares to be registered in my/our name(s) pursuant to the attached application are neither "UK Affected Shares" nor "EEA Affected Shares".

For the purposes of this Declaration:

- (i) a UK Affected Share is a share beneficially owned by a non-UK national or in which a non-UK national has an "interest";
- (ii) a non-UK national means (a) an individual who is not a national of the UK; (b) a body corporate which is not controlled by nationals of the UK; (c) a government or governmental department, agency or body otherwise than of the UK; (d) a municipal, local, statutory or other authority formed or established in any country other than the UK; or (e) any other undertaking or body which is not controlled by nationals of the UK;
- (iii) an EEA Affected Share is a share beneficially owned by a non-EEA national or in which a non-EEA national has an "interest";
- (iv) a non-EEA national means (a) an individual who is not a national of an EEA Member State (i.e. Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland and the UK); (b) a body corporate which is not controlled by nationals of the EEA; (c) a government or

governmental department, agency or body otherwise than of any non-EEA country; (d) a municipal, local, statutory or other authority formed or established in any country other than an EEA country; or (e) any other undertaking or body which is not controlled by nationals of the EEA;

- (v) a beneficial owner is any person or entity that, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise has or shares (a) voting powers (including the power to exercise or direct the exercise of any voting rights attaching to the shares) or (b) investment power (including the power to dispose, or to direct the disposition of, such shares); and
- (vi) a person has an interest in shares if (a) a company is interested in them and (i) the company or its directors are accustomed to act in accordance with his instructions or (ii) he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of the company (and for this purpose he is deemed to be able to exercise any voting power in any other company which such a company can exercise) (b) he has entered into a contract to purchase the shares or is entitled to exercise or control the exercise of any right attaching to the shares (or he has a right or is under an obligation that, if exercised or fulfilled, would so entitle him) (c) he is entitled to call for delivery of the shares or he is entitled or obliged to acquire an interest in the shares or (d) a spouse or child under the age of 18 years of such person is interested in the shares.

Date:

*Name of Applicant:

Surname:	First Name:
Middle Name(s):	
Address:	
No. and Street:	Town or City:
Post Code:	Country:
*Signature of Applicant:	

*Note if the Applicant is a corporate or similar entity, complete the following:

Name of Entity:
Name of Authorised Signatory:
Title:
Signature:

This Declaration should normally be made by the person named in the accompanying application as the applicant. A corporation should either affix its seal or complete the form under the hand of a duly authorised official or agent who should state his capacity. Shares to be held by a nominee must be considered held by the person for whom the nominee is acting if such person is the beneficial owner of such shares or has an interest in such shares, as described above.

If the completion of this Declaration by the applicant would lead to undue delay, Fly First plc will accept a Declaration made by the stockbroker, bank manager, solicitor or by any other person duly authorised by Power of Attorney, in every case acting as the agent of the applicant. In such cases, however, the following declaration must also be made:

DECLARATION BY AGENT: I/We, being the person making the Declaration set out above as agent for the person named as applicant in the accompanying application form and whose name is set out herein, represent and warrant that person ON WHOSE BEHALF the Declaration is made is known to me/us and that I/we am/are duly authorised to make the said Declaration on behalf of such person and that, having made such inquiries as I/we consider appropriate regarding the statements contained in such Declaration, such statements are correct to the best of my/our knowledge and belief.

Signature(s):	
Date:	Organisation:

If signed by a stockbroker, bank manager or solicitor, give the name, address and telephone number of the person signing this form:

Full Name(s):
Organisation:
Address:
Organisation:

Fly First plc reserves the right to request a signed copy of the Power of Attorney or other documents establishing any agency relationship. The Directors of Fly First plc reserve the right to be supplied with such evidence as they may require of the authority of any signatory on behalf of an applicant and to require such evidence or information as to any matters contained in this Declaration or as to any interest whatsoever held by any party in shares within the meaning of Part VI of the Companies Act 1985. The Directors of Fly First plc will refuse to register the applicant as holder of the shares if such further evidence is not provided or given. If you are in any doubt as to how to complete this Declaration or as to the definition of Affected Shares, you should consult your lawyer or other professional adviser.

Note: The allotment of shares following the completion of this Declaration and, where relevant, the provision by the applicant of such other evidence or information as the Directors of Fly First plc may have required prior to such registration is without prejudice to the ability of the Directors of Fly First plc to exercise any or all of the powers exercisable by them pursuant to the Articles of Association of Fly First plc. In particular, the Directors have power to apply a broader definition of the term "Affected Share" pursuant to the Articles of Association of Fly First plc than is applied for the purposes of this Declaration and may adopt a different form of nationality declaration in substitution for this Declaration from time to time.

