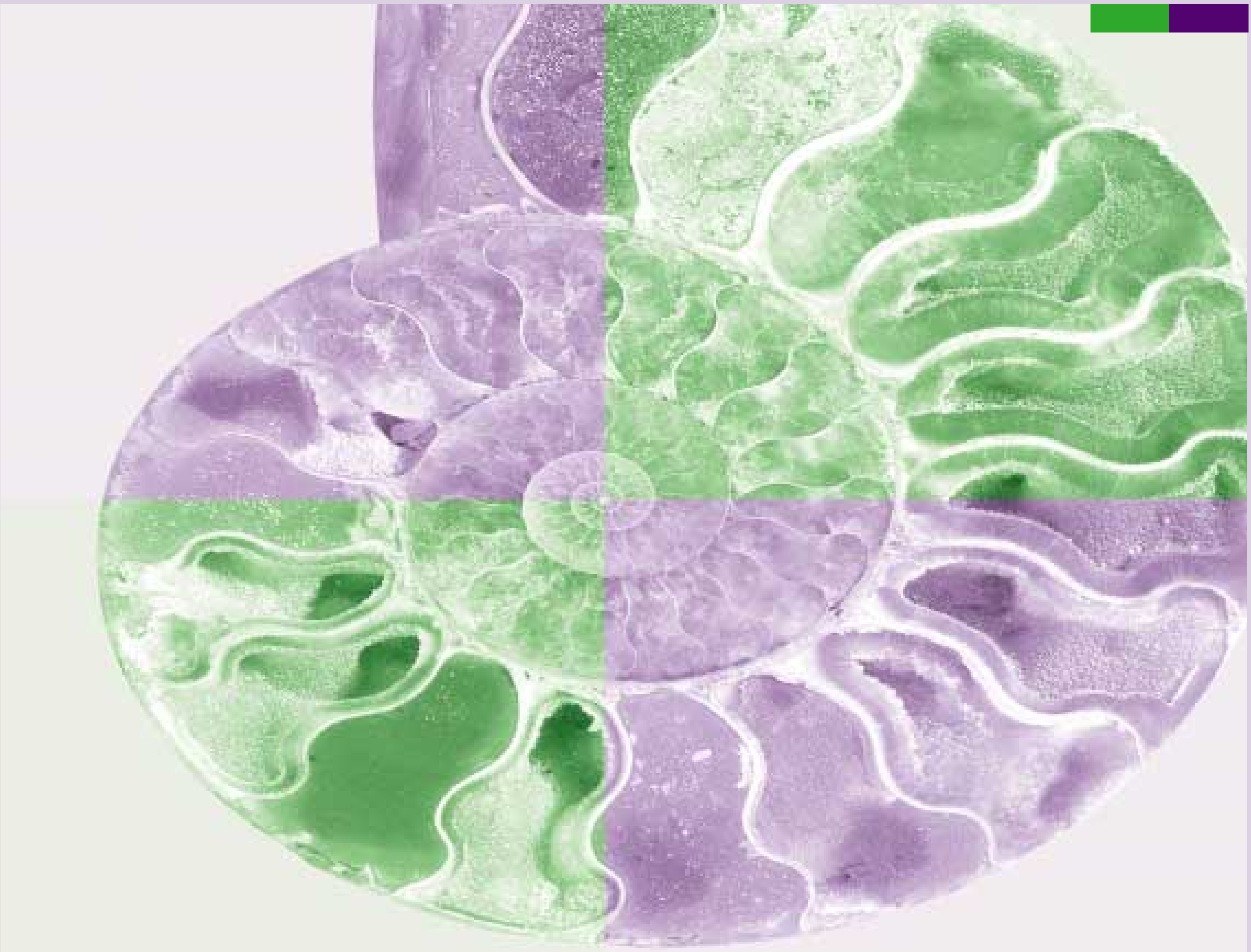
Prospectus

# Jelf Group plc

A different way of looking at your business



Admission to A I M and placing by

DS&C

Nominated Adviser

J. M. FINN & CO.

STOCKBROKERS

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

This document has been drawn up in accordance with the Public Offers of Securities Regulations 1995, as amended (the "POS Regulations") and the AIM Rules. A copy of this document which comprises a prospectus under the POS Regulations has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations. The Directors of Jelf Group plc, whose names appear on page 4 of this document, accept responsibility, individually and collectively, for the information contained in this document including responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

**Application has been made for the entire issued and to be issued share capital of the Company to be admitted to trading on the AIM market of the London Stock Exchange plc ("AIM"). It is expected that admission to AIM will become effective and that dealings will commence on 21 October 2004. It is emphasised that no application has been made or is being made for the admission of such securities to the Official List of the United Kingdom Listing Authority ("Official List"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Neither the United Kingdom Listing Authority nor the London Stock Exchange plc has examined or approved the contents of this document.**

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

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# Jelf Group plc

*(Registered in England and Wales with registered number 2975376)*

## Placing of 3,086,420 Ordinary Shares at 81p per share

## and

## Application for admission to trading on AIM

| Nominated Adviser: | Broker: |
|---|---|
| **Daniel Stewart & Company Plc** | **J.M. Finn & Co** |

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Daniel Stewart & Company Plc, which is authorised and regulated in the United Kingdom by The Financial Services Authority, is the Company's nominated adviser for the purposes of the AIM Rules. Its responsibilities as such are owed solely to the London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. JM Finn & Co, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is the Company's broker for the purposes of the AIM Rules.

Persons receiving this document should note that, in connection with the matters described in this document, Daniel Stewart & Company Plc and JM Finn & Co are acting exclusively for the Company and will not be responsible to any other person for providing the protections afforded to customers of each of them nor for providing advice in relation to the contents of this document or any other matter referred to herein. Neither Daniel Stewart & Company Plc nor JM Finn & Co has authorised the contents of this document for any purpose and, without limiting the statutory rights of any person to whom this document is issued, no representation or warranty, express or implied, is made by Daniel Stewart & Company Plc and JM Finn & Co as to any of the contents or completeness of this document.

Copies of this document are available free of charge during business hours from Daniel Stewart & Company Plc at 48 Bishopsgate, London, EC2N 4JA for a period of 1 month from the date of Admission.

The Ordinary Shares and the Placing Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under the securities legislation of any state of the United States of America, Australia, Canada, Japan or the Republic of Ireland. Accordingly, subject to certain exceptions, the Ordinary Shares and the Placing Shares may not, directly or indirectly, be offered or sold within the United States of America, Australia, Canada, Japan or the Republic of Ireland or to or for the account or benefit of any national, resident or citizen of Australia, Canada, Japan or the Republic of Ireland or any person located in the United States. This document does not constitute an offer, or the solicitation of an offer to subscribe or buy, any of the Ordinary Shares or the Placing Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

# CONTENTS

## PLACING STATISTICS

| | |
|---|---|
| Placing Price | 81p |
| Number of Placing Shares | 3,086,420 |
| Number of Ordinary Shares in issue at Admission | 13,370,120 |
| Net proceeds to be received by the Company from the Placing (excluding VAT) | £2.1 million |
| Percentage of enlarged issued share capital represented by the Placing Shares | 23% |
| Market capitalisation on Admission at the Placing Price | £10,829,797 |

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

| | |
|---|---|
| Publication of this document | 15 October 2004 |
| Admission and dealings in the existing Ordinary Shares and the Placing Shares expected to commence on AIM | 21 October 2004 |
| CREST accounts to be credited | 26 October 2004 |
| Despatch of definitive share certificates in respect of the existing Ordinary Shares and the Placing Shares (where applicable) | 28 October 2004 |

## DIRECTORS, SECRETARY AND ADVISERS

| | | |
|---|---|---|
| **Directors:** | **Christopher Jelf** | *Group Chairman* |
| | **Alexander Douglas Alway** | *Group Chief Executive* |
| | **Peter Elliott** | *Healthcare Managing Director* |
| | **John Harding** | *Group Finance and Operations Director* |
| **Company Secretary:** | **John Harding** | |
| **Registered Office:** | **Fromeforde House**<br>Church Road<br>Yate BS37 5JB | |
| **Nominated Adviser:** | **Daniel Stewart & Company Plc**<br>48 Bishopsgate<br>London EC2N 4AJ | |
| **Broker:** | **JM Finn & Co**<br>Salisbury House<br>London Wall<br>London EC2M 5TA | |
| **Reporting accountants:** | **Horwath Clark Whitehill LLP**<br>10 Palace Avenue<br>Maidstone<br>Kent ME15 6NF | |
| **Auditors:** | **Horwath Clark Whitehill LLP**<br>Carrick House<br>Lypiatt Road<br>Cheltenham<br>Gloucestershire TL50 2QJ | |
| **Solicitors to the Company:** | **Finers Stephens Innocent**<br>179 Great Portland Street<br>London W1W 5LS | |
| **Solicitors to the Placing:** | **Orchard**<br>6 Snow Hill<br>London EC1A 2AY | |
| **Registrars:** | **Capita Registrars**<br>The Registry<br>34 Beckenham Road<br>Beckenham BR3 4TU | |
| **Bankers** | **Barclays Bank**<br>Bristol Business Team<br>PO Box 324 (Patchway)<br>Park House<br>Newbrick Road<br>Stoke Gifford<br>Bristol BS34 8ZJ | |
| **Financial PR:** | **Redleaf Communications Limited**<br>9-13 St. Andrew Street<br>London EC4A 3AF | |

# DEFINITIONS AND GLOSSARY OF TERMS

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

| | |
|---|---|
| "Act" | the Companies Act 1985 (as amended) |
| "Admission" | the admission to trading on AIM of the Enlarged Share Capital |
| "AIM" | a market operated by the London Stock Exchange plc |
| "AIM Rules" | the rules for companies admitted to trading on AIM published by the London Stock Exchange |
| "Articles" | the articles of association of the Company |
| "Board" or "Directors" | the directors of the Company |
| "Combined Code" | the Combined Code on Corporate Governance and the Code of Best Practice included in an appendix to the listing rules of the UK Listing Authority |
| "Company" or "Jelf" | Jelf Group plc |
| "CREST" | the electronic settlement system to facilitate the transfer of title of shares in uncertificated form operated by CRESTCo, the relevant system (as defined in the CREST Regulations) for paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by CRESTCo |
| "CRESTCo" | CRESTCo Limited |
| "CREST Regulations" | the Uncertificated Securities Regulations 2001 |
| "Daniel Stewart" | Daniel Stewart & Company Plc, nominated adviser to the Company |
| "EMI Code" | shall have the meaning given to that expression in section 527(3) of Income Tax (Earnings and Pensions) Act 2003 |
| "EMI Options" | the enterprise management incentive options in respect of 150,000 Ordinary Shares which have been granted to certain Directors and employees of the Group pursuant to the provisions of Chapter 9 of Part 7 and Schedule 5 of the Income Tax (Earnings and Pensions) Act 2003, a summary of which is set out in Part III of this document |
| "Enlarged Share Capital" | the existing Ordinary Shares and the Placing Shares |
| "FSA" | the Financial Services Authority |
| "Group" or "Jelf Group" | the Company and its subsidiaries |
| "IFA" | independent financial advisor |
| "JM Finn" | JM Finn & Co. |
| "London Stock Exchange" | London Stock Exchange Plc |
| "Official List" | the official list of the UK Listing Authority |
| "Ordinary Shares" | ordinary shares of 1p each in the capital of the Company |

| | |
|---|---|
| "Placing" | the proposed placing by JM Finn as agent for the Company of the Placing Shares at the Placing Price pursuant to the Placing Agreement |
| "Placing Agreement" | the conditional agreement dated 15 October 2004 between the Company (1), the Directors (2), the partners of JM Finn (3) and Daniel Stewart (4) relating to the Placing, further details of which are set out in paragraph 7 of Part III of this document |
| "Placing Price" | 81p per Placing Share |
| "Placing Shares" | the 3,086,420 new Ordinary Shares to be issued pursuant to the Placing |
| "PMI" | private medical insurance |
| "POS Regulations" | the Public Offers of Securities Regulations 1995, as amended |
| "Shareholders" | holders of Ordinary Shares |
| "UK" | United Kingdom of Great Britain and Northern Ireland |
| "UK Listing Authority" | the FSA, acting in its capacity as the competent authority for the purposes of the Financial Services and Markets Act 2000 |
| "Uncertificated" or "in uncertificated form" | recorded in the relevant register of the shares concerned as being held in uncertificated form through CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST |
| "US" or "USA" | the United States of America, its territories and possessions, any states of the United States of America and the District of Columbia and any other areas subject to its jurisdiction |
| "Warrants" | the warrants to subscribe for up to 571,841 Ordinary Shares at the Placing Price, further details of which are set out in paragraph 8 of Part III of this document |
| "Warrantholder" | the holder of any Warrants |
| "Warrant Instrument" | the warrant instrument of the Company dated 6 October 2004 pursuant to which the Warrants were duly constituted |

# PART I

# INFORMATION ON THE GROUP

## INTRODUCTION

Jelf Group is an established corporate intermediary based in the West Country and Wales offering a range of corporate services principally in the areas of commercial insurance, healthcare and financial services.

Since incorporation, the Group has expanded its business both organically and through targeted acquisitions. In conjunction with this growth strategy, the Group has made considerable investment in its resources and infrastructure. With its experienced management team and its track record in creating increased value through acquisitions, the Board believes that the Group is well placed to take advantage of present market conditions and build on its expansion strategy by acquisitions in identified niche growth areas including health insurance.

## HISTORY

Chris Jelf founded the business in 1989. Today, the Jelf Group operates from a number of premises in the West Country and Wales and offers an extensive range of corporate services.

The Group has grown its operations, as illustrated by a growth in turnover of 58 per cent., over the last three years (30 September 2001 compared to 30 September 2003). At the same time profits before tax have grown by 211 per cent. for the same period. Average staff numbers have grown from 71 to 131 from 30 September 2001 to 30 April 2004. A programme of re-investment provided the necessary funds to establish an independent healthcare consultancy that was incorporated in 1997. During the last six years, the Group's healthcare team has established a business that advises clients with an aggregate corporate health service spend in excess of £35 million.

The Group advises over 4,000 corporate clients across a range of disciplines. These clients cover the spectrum from significant public companies to small owner managed businesses. The core Jelf clients are medium sized owner-managed businesses, typically employing between 1 to 50 staff, with a turnover of up to £10 million.

## THE BUSINESS

### Jelf Group's Services

The Group has had a number of successes in introducing its clients to the full range of services and advice offered in each of the Group's areas of expertise. Corporate clients may typically be dealing with a senior account executive who will place their business insurance and in addition may also be handling elements of the client's employee benefits programme as well as working in a personal capacity with the owner(s) of the corporate client on his/her own financial planning.

The Group provides the following services:

### Commercial Insurance

The Group provides commercial insurance broking services to corporate clients who typically fall into the owner managed sector based in the UK. The Group's experience enables it to provide independent advice on all aspects of commercial insurance, from the research, design and provision of cover, to the audit, review and enhancement of a client's current insurance provision.

The Directors believe that because the Group is not tied to any one insurer it can offer a truly independent service which enables the Group to research the market for the arrangements that best suit the clients' needs taking into account factors such as price, cover and service. An ongoing renewal programme of client contact is intended to keep the level of insurance cover and premiums competitive as insurance cover can be adjusted to reflect changes in circumstances. The Group has access to a network of insurance markets (including

Lloyds underwriters) which the Directors believe enables the Group to provide clients with a competitive service through all classes of business.

In addition to commercial insurance advice, the Group also specialises in providing a range of solutions for debt management protection offered through its credit insurance advisers. Turnover for the Group's commercial insurance business accounted for approximately £2 million of revenue in the year ended 30 September 2003.

**Healthcare Consultancy**

The Group provides expertise on health-related employee benefit issues. In addition the Group advises on aspects of benefit initiatives such as employee assistance programmes, dental insurance and occupational health. One example of this is the specific healthcare plan put in place for some of the Group's Welsh clients which sources treatment from local hospitals at a reduced cost. Core areas of expertise include corporate medical plans, individual/international cover, healthcare trusts and self funded options.

The healthcare consultancy is not tied to any one insurer or service provider. Turnover for this business was in the region of £1.3 million in the year ended 30 September 2003.

**Financial Services**

The Group's financial services team provides advice on employee benefit structures and the specific needs of individuals. This includes the establishment and servicing of new schemes and the servicing of existing schemes. The Group has demonstrated its ability to be able to provide practical solutions to complex problems including solutions designed to reduce the cost of running an employee benefits package. Turnover for this business accounted for approximately £3.3 million of the Group's revenue in the year ended 30 September 2003.

**Wealth Management Services**

In addition to the above core services, the Group offers individual consultancy services such as investment portfolio advice, inheritance tax planning and mortgage advice to clients with resources of sufficient value to justify the use of these services.

**THE MARKET**

Most national intermediaries concentrate on providing services to individuals whereas Jelf Group concentrates on corporate customers. For this reason, Jelf should not be viewed as a traditional Independent Financial Advisor (IFA).

The UK market place for retail financial and insurance broking is undergoing significant changes which the Directors believe are due to various external pressures such as:

- *political intervention*, the sector has been subject to considerable legislative change over the last few years including Government intervention on regulation and price controls;
- *rising awareness (assisted by media attention)*, which has in the opinion of the Directors brought benefits to the Group's business, as clients require an expanded range of services which the Group is able to supply;
- *low inflation*, which in the assessment of the Directors has produced a commercial environment requiring productivity gains from the sector, taking the form of reduced unit costs and lower levels of commission per case; and
- *the development of a complete end-to-end e-commerce solution*, which is still at a relatively early stage within the sector. However, the Directors believe that the introduction of enhanced technology has been a significant factor in reducing costs in some areas.

The consolidation of the intermediary sector is taking place against a backdrop of new capital and management entering the industry. The Directors have identified several business types which they believe have emerged as key drivers of this consolidation/restructuring trend:

- *Nationals* – Traditional larger brokers;
- *Vertical Integration* – Purchase of distribution by providers;
- *Equity Backed* – Stock market business models which use listed equities to underpin deals;
- *Networks* – Concentration of buying power providing economies of scale; and
- *Other Developments* – Local variations on the above using a mixture of bank facilities and private capital (for example, Jelf Group).

These business types still only represent a minority percentage of the overall market, however, the trend is highlighted with recent announcements of new corporate consolidation activity.

As part of the Group's expansion policy, the Directors are looking at potential acquisitions and are seeking to recruit further experienced brokers.

**The Commercial Insurance Market**

The Association of British Insurers (ABI) have estimated that the UK market for insuring commercial risks in the UK has risen from a total premium value of £25 billion in 2000 up to £33 billion in 2003.

**The Corporate Healthcare Market**

The healthcare insurance sector is one of the core areas of Jelf's expansion strategy and the Directors believe that growth opportunities exist for the Group to capitalise on its client base to continue to grow this segment of its business.

The total market for private healthcare is mature but the demand for corporate schemes continues to grow. As a result the Directors believe that the sector offers scope for Jelf to establish itself as a leading provider of corporate healthcare schemes.

Research of the healthcare insurance industry has suggested relatively flat growth during the past 12 years with the number of UK consumers covered by private medical insurance (PMI) rising from approximately 6.69 million in 1990 to approximately 6.71 million in 2002. The Directors estimate from research published in 2003, that as a percentage of the UK population covered, the figure has actually fallen from circa 11.7 per cent. to circa 11.4 per cent. However, this does not reflect the opposing trends in corporate and personal schemes, with research suggesting that people covered by corporate schemes rising by *circa* 11.6 per cent. over the 12-year period (to circa 4.7 million), as opposed to an approximate 19.2 per cent. fall in those covered by personal schemes. As a percentage of the UK population this published research suggests those covered by a corporate scheme has risen from circa 7.3 per cent. to circa 8.0 per cent., while personal schemes have fallen from circa 4.3 per cent. to circa 3.4 per cent.

Department of Trade and Industry (DTI) research estimates that there are potentially 24.4 million PMI members within the UK's business community. Research estimates that there were 4.7 million employer paid PMI subscribers in 2003. This suggests a PMI penetration level of circa 19 per cent. in the employer paid market as a whole.

Although there are examples of providers who will cover 1 or 2 employees, company PMI is normally available only to those companies that purchase PMI cover for at least 3 employees.

**The Financial Services Market**

The retail financial services industry (associated with IFAs) was worth approximately £1.6 billion in 2002 in terms of fees and commission generated. Revenues were split between direct sales (non-independent via their links with financial product providers) and IFAs on an approximate ratio of 36:64. Research estimates that there were circa 20,000 direct sales advisers and circa 28,000 IFAs in the UK industry during 2002.

## STRATEGY

The Directors' strategy is to differentiate itself from these larger organisations by creating a profitable corporate niche that the Directors believe will produce a platform to enable the Group's employees and services to succeed. It is the Directors' intention that the Group act as a 'consolidator' in the market and to pursue this strategy using both organic and acquisition growth.

The Board has identified a number of internal pressures relating to the sectors of the financial and insurance market in which the Group operates which are seen by the management team as providing business opportunities. The Board believes that these fall into the following categories:

### Regulation

The minimum levels of solvency requirements are in the opinion of the Directors unlikely alone to be a barrier to new entrants. The Directors believe that increasing regulatory requirements dictate that a certain level of size is attained before it becomes economically viable for a new directly regulated firm or individual to establish a start up.

The Directors believe that the increased focus on solvency will inhibit those intermediaries without access to significant equity capital from acquiring other firms. The goodwill associated with these acquisitions will be disallowed for solvency calculations from 2008. On the assumption that most "people businesses" are likely to have an enterprise value largely consisting of goodwill, unless a purchasing firm has an otherwise strong balance sheet the large proportion of goodwill compared with assets allowable for the purposes of satisfactory solvency requirements will, in the Directors opinion, be likely to inhibit purchases. The Directors believe that this will reduce the number of serious purchasers in the market and restrict price inflation over the medium term.

The Directors also believe that it will be the middle tier of provincial brokers, who have embarked previously on a consolidation process without long term access to significant equity capital, which will be most affected by this market pressure. Jelf Group will look to provide a business framework for consolidation of certain of these brokerages.

### Ageing population

A substantial number of brokers within the sector are in their late 50s and accordingly a significant number may need to put in place succession plans for their businesses. The Directors believe that the principals of these businesses would, in the main, prefer to hand their business over to those with similar aspirations. Jelf Group provides an exit proposition that offers professional management, access to funds and a broking team known to these principals.

### Skill shortage

The Directors believe that a lack of individuals with both technical and client management skills in the sector makes it difficult for service businesses to grow. The Group's strategy to overcome this human resource issue is to focus on recruitment and training.

### Training and Development

The Group has appointed a training and competency manager with the objective of developing the skills of its existing employees. The development of its staff and the attainment of relevant industry qualification by the Group's employees is a key goal for the Group. Jelf Group has a proven track record of recruiting and retaining qualified individuals which the Directors believe will be of significant use as it becomes a consolidator.

## DEVELOPING CLIENTS

The Group's broad range of services enable it to develop a relationship with clients across a number of areas. The relationship between the corporate client and the Group may start in any one of these areas. Once this relationship has been put in place the Group's wider range of services can be introduced.

The Group intends to grow both organically and through acquisition as follows:

### Organic Growth

The Group has a historical track record of growing the business organically. It is the intention of the Board to continue to examine opportunities to develop the Group's business by recruiting talented staff and investing in their continued development.

### Acquisition Growth Strategy and History

Jelf Group will supplement its organic growth with a targeted acquisition strategy which the Directors believe will provide additional growth. The Directors believe that the following benefits will be associated with such an acquisition strategy:

- **Economies of Scale** – Increased market share from an enlarged organisation will, in the opinion of the Directors, produce financial benefits by applying tight financial disciplines. The Directors believe that these would take the form of increased margins, stripping out duplicate costs, increased purchasing power and continuously re-engineering processes using technology as an enabler; and
- **Exploiting existing and related markets** – having established the corporate infrastructure, the Group will look to add breadth and depth to its market share by targeting profitable niches and/or expanding into related markets where opportunities exist.

The Group has developed a corporate support infrastructure that has enabled it to make a number of acquisitions over the last 4 years. These acquisitions span all core areas of the Group's business and have been made to either supplement existing operations or acquire a corporate client base that can be utilised by the enlarged Group. The significant acquisitions were as follows:

- 2000 – IFM – IFA based in Bristol – relocated to Yate, Bristol;
- 2001 – Corporate Healthcare Management – Healthcare partnership;
- 2002 – Spring Gate Insurance – Purchase of a book of commercial insurance;
- 2003 – Richard Levinge Associates – IFA business based in Cheltenham;
- 2003 – SLF Insurance (Services) Ltd – Purchase of a book of commercial insurance;
- 2003 – Kallender Walwyn Ltd – Purchase of commercial insurance business based in Trowbridge; and
- 2003 – Pontin and Stein – Corporate Healthcare partnership.

In addition the Group has also taken advantage of the consolidation in the healthcare sector to acquire at a minimal price, a significant book of private medical insurance business from a provider withdrawing from the direct distribution of this product.

## TRADING HISTORY

A summary of the Group's trading history and latest financial statements is as follows:

| *(£'000)* | *2004* | *2003* | *2002* | *2001* |
|---|---|---|---|---|
| | *7 months to 30/4/04* | *12 months to 30/9/03* | *12 months to 30/9/02* | *12 months to 30/9/01* |
| Sales* | 4,965 | 6,716 | 5,914 | 4,260 |
| Expenses** | (4,597) | (6,255) | (5,426) | (4,104) |
| EBITDA | 558 | 706 | 677 | 293 |

*- Includes other operating income further details of which are set out in Part II of this document

**- Administration expenses and cost of sales

The results of the Group for the three years ended 30 September 2003 and for the 7 month period ended 30 April 2004 are set out in Part II of this document.

## CURRENT TRADING AND PROSPECTS OF THE GROUP

Trading for the Group for the 7 months to 30 April 2004 was strong with turnover at approximately £5 million compared to approximately £6.7 million for the previous 12 month period. The Directors believe that this was helped by the Group's insurance and healthcare acquisitions implemented in 2003 combined with the high renewal rates that Jelf has experienced in these two businesses.

During this seven month period operating margins have been maintained at 7 per cent. and the Directors believe that this would have been higher except for the continual investment by the Group in its infrastructure, particularly in the areas of marketing and compliance, as it gears itself up for future acquisitions and the change of regulator in January 2005.

## COMPETITORS

The Directors have identified three main types of competitor across Jelf's three key areas of business:

- *Provincial:* The Directors believe that these benefit from local knowledge, have significant flexibility and are close to their loyal customers. However, the Directors have identified what they believe could be obstacles for these types of businesses as provincials lack the resources and financial depth and do not offer a sufficient breadth of services and lack buying power.
- *Super provincial:* These are similar to the smaller provincial intermediaries detailed above, but tend to enjoy higher levels of scale economies and tend to offer a broader range of services.
- *National & network intermediaries:* These typically have strong levels of buying power, scale economies and access to capital. They also have brand awareness, but the benefit is offset by the higher costs, potential bureaucracy and they lack flexibility.

## DIRECTORS AND SENIOR MANAGEMENT

### Directors

*Christopher Jelf – Group Chairman – Aged 45 – ACII/FPC*

Chris established the business in 1989 after having worked in the industry in a number of positions for brokerages and providers (including Midland Bank and Royal Insurance). Chris is a qualified broker and independent financial advisor and has an active role with many of the Group's business insurance clients and business partners.

*Alexander Douglas Alway – Group Chief Executive – Aged 44 – FCMA*

Alex is a commercial accountant with over 16 years of experience working within the retail financial services sector. Alex worked for BP as a business accountant for 4 years. He was previously with AXA Sun Life plc for 10 years in a number of roles including finance, change management, IT strategy and commercial director IFA. Alex joined Jelf Group in 2001.

*John Harding – Group Finance and Operations Director – Aged 52 – ACA & BSc*

John is an accountant with over 20 years experience in the financial services industry including previously holding the position of Head of Group Finance and Finance Director of Broker Sales with AXA Sun Life. He joined Jelf Group in 2004. John is also a non-executive director of the Bath Investment Building Society.

*Peter Elliott – Healthcare – Managing Director – Aged 46*

Peter has 20 years experience in the healthcare sector previously working for BUPA, CIGNA and Hogg Robinson in a number of senior roles. Peter established the Jelf healthcare intermediary business as a start up in 1997.

It is the intention of the Board to appoint a non-executive director following Admission.

**Senior Management**

*Glenn Thomas – Financial Services – Aged 40 – ACII*

Glenn has worked in the sector for over 20 years during which he has specialised in advising on corporate employee benefits. Glenn joined Jelf in 1992.

*Gary Chandler – Commercial Insurance – Aged 40 – ACII*

Gary has worked in the sector for over 20 years and, prior to joining Jelf Group in 1993, worked for Commercial Union which later became Norwich Union. Since 2003 he has been managing director for Jelf Insurance.

*Chris Clarke – Commercial Insurance – Aged 48*

Chris was previously with NFU Mutual and one other large regional broker and has worked in the sector for over 29 years. Chris joined Jelf Group in 1989 to establish and develop what has since become the core commercial insurance business.

*Phil Barton – Group Commercial – Aged 41 – Bsc & MBA*

Phil is a financial services professional with over 20 years experience within the sector, most recently with AXA where he was the Sales Director for IFA sales and at the Prudential dealing with large corporate accounts. Phil joined Jelf Group in 2003 with the specific brief to develop both a client focussed strategy and lead the Group's marketing activities.

**THE PLACING AND REASONS FOR ADMISSION**

The Placing comprises the issue by the Company of 3,086,420 Placing Shares, and will raise approximately £2.5 million at the Placing Price, (£2.1 million net of expenses excluding VAT).

Under the Placing Agreement, JM Finn has agreed as agent for the Company, conditionally, *inter alia*, on Admission, to use its respective reasonable endeavors to procure placees for the Placing Shares at the Placing Price. The Placing is not underwritten. The Placing Shares will rank *pari passu* in all respects with the existing Ordinary Shares. The Placing Agreement contains provisions entitling either of JM Finn or Daniel Stewart to terminate the Placing Agreement at any time prior to the completion of the Placing in certain circumstances. If this right is exercised the Placing will lapse. Further details of the Placing Agreement are set out in paragraph 7 of Part III of this document.

Application has been made to the London Stock Exchange for all of the enlarged share capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the existing Ordinary Shares and the Placing Shares on AIM will commence on 21 October 2004.

The Directors believe that the admission to trading of the Company's shares on AIM will provide access to additional capital in future years for longer term development of the Company's business and thereby increase the Company's market share, increase general awareness of the Company and will enhance the liquidity of its Ordinary Shares by attracting UK institutional investors.

**USE OF FUNDS**

The Directors intend to use the net proceeds of the Placing as follows:

- to acquire healthcare and insurance intermediaries; and
- to provide additional working capital to enable further resources to be employed and therefore enhance organic growth of the Group and continue to build the infrastructure to support the Group's enlarged business.

## DIVIDEND POLICY

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

## SHARE OPTIONS

The Directors consider that an important part of the Company's remuneration policy should include equity incentives through the grant of share options to directors and employees. The Company has granted EMI Options to certain Directors and employees of the Group which will lapse if Admission does not occur prior to 31 December 2004, further details are set out in Part III of this document. In addition further options may be granted to directors and employees of the Group at not less than the market value of the Ordinary Shares at the time of grant which, when aggregated with the EMI Options, will not exceed the aggregate of ten per cent. of the Company's issued ordinary share capital at the date of grant.

## LOCK-INS AND ORDERLY MARKET ARRANGEMENTS

All existing Shareholders have undertaken to the Company, Daniel Stewart and JM Finn that, save in limited circumstances, they will not dispose of any interest in Ordinary Shares held by them for a period of twelve months from Admission. The lock-ins also contain orderly market provisions which apply for a further twelve months after expiry of the lock-in period. Full details of these agreements are set out in paragraph 7 of Part III of this document.

## CORPORATE GOVERNANCE

The Directors intend to comply with the provisions of the Combined Code, so far as is reasonably practicable for a company of Jelf's size. It is the intention of the Board to appoint a non-executive director following Admission.

An audit committee will be established following Admission. The audit committee will determine the application of the financial reporting and internal control principles, including reviewing the effectiveness of the Group's financial reporting, internal control and risk management procedures and the scope, quality and results of the external audit.

A remuneration committee will be established following Admission. It will review the performance of the executive Directors and will set their remuneration, determine the payment of bonuses to executive Directors and consider bonus and option schemes. Each of the executive Directors will take no part in discussions concerning their remuneration.

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

## CREST

CREST is a paperless settlement procedure which enables securities to be evidenced other than by certificate and transferred other than by written instrument. The Company's articles of association permit the holding and transfer of Ordinary Shares under CREST. It is expected that the Placing Shares will be admitted to CREST on 26 October 2004. CREST is a voluntary system and shareholders who wish to receive and retain share certificates will be able to do so.

## ENTERPRISE INVESTMENT SCHEME AND VENTURE CAPITAL TRUSTS

The Company has received provisional clearance from the Inland Revenue that the Company's shares will rank as a qualifying investment for the purposes of the Enterprise Investment Scheme ("EIS") and will be a "qualifying company" for the purposes of investment by Venture Capital Trusts ("VCTs").

The continuing availability of EIS relief and the status of the Placing Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, on the Company continuing to satisfy the requirements of EIS throughout the relevant EIS period, and, for VCT purposes, throughout the period the Ordinary Shares are held as a "qualifying holding". The EIS allows the following tax reliefs for individual investors provided investments are held for three years:

- initial income tax relief of 20 per cent.; and
- exemption from capital gains tax ("CGT").

The EIS also allows CGT payable on chargeable gains realised by individuals and certain trustees to be deferred. To qualify for CGT deferral, a sum up to the amount of the chargeable gain must be used to subscribe (usually not more than one year before nor more than three years after the date on which the chargeable gain arises) in new ordinary shares of a qualifying trading group or an unquoted group which is the parent of a qualifying trading group. For this purpose, shares admitted to trading on AIM are regarded as unquoted.

A claim for CGT deferral relief or income tax relief under EIS is made by the individual investors and/or trustees claiming the relief.

The claim cannot be made until the Company has issued an appropriate form EIS3. This can only be issued once the Company has received authority from the Inland Revenue which can only be given once application is made by the Company to the Inland Revenue. An application will be made by the Company as soon as practicably possible following Admission.

Investors considering taking advantage of any of the reliefs under the EIS or available to VCTs should seek their own professional advice in order that they may fully understand how the rules apply in their individual circumstances.

## RISK FACTORS

**In addition to the other relevant information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. If you are in any doubt about the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

**The Directors currently consider the following risks to be material, there maybe others of which they are not aware of at this point of time**

### EIS and VCT relief

Provisional clearance has been received from the Inland Revenue that the Company's shares qualify for EIS relief and that the Company is a qualifying Company for VCTs. Although qualifying subscribers should obtain tax relief on their investments under the EIS or VCT relief neither the Group nor the Directors can provide any warranty or guarantee in this regard. Subscribers must take their own advice and rely on it.

Neither the Group nor the Directors give any warranties or undertakings that EIS relief or VCT relief if granted will not be withdrawn. Applicants must take their own advice and rely on it. If the Group carries on activities beyond those disclosed to the Inland Revenue then Shareholders may cease to qualify for the tax benefits outlined in this document.

### Legislation and Tax

This document has been prepared on the basis of current legislation, rules and practice and the advisers' interpretation thereof. Such interpretation may not be correct and it is always possible that legislation, rules and practice may change. Any changes in taxation legislation or rules, and in particular any changes to bases of taxation, tax relief and rates of tax, may affect the availability of reliefs. Changes in legislation affecting the Group's business may be introduced at anytime and may impact on the business, operations and financial condition of the Group.

**FSA**

Due to a change in legislation, the Group's mortgage, insurance and healthcare business is soon to be regulated by the FSA. If the FSA fails to authorise the Group's mortgage, insurance and healthcare businesses by 14 January 2005, the relevant Group companies would not be able to trade in those areas of business beyond this date. In addition if the FSA fails to approve individuals employed by the Group within the mortgage, insurance and healthcare businesses by 14 January 2005, then income maybe materially be affected.

**Strategy**

The Group's management may not succeed in adapting its stated strategy to match changes in the market. There is also the possibility of failure of the Group to either capitalise on the identified pipeline of acquisition targets or to turn these candidates into realistic business propositions. Management may be unsuccessful in integrating acquired businesses and/or extracting anticipated benefits. The result of one or more of these failures may mean that the Group will not meet its business plan for growth and could result in an adverse effect on the Group's financial results.

**Breach of Regulations**

Breach by any company within Jelf Group of relevant regulations which apply to their businesses may have regulatory consequences as well as cost consequences, impacting adversely on the Group's business, operations and financial condition.

**Reduction in Premiums**

Significant reduction in premiums in both the insurance and healthcare market may adversely affect the financial condition of the Group.

**Key Personnel**

The Group is dependent on certain key executives and personnel for its success. There can be no guarantee that it will be able to retain the services of key employees.

**Investment risk and AIM**

The existing Ordinary Shares and the Placing Shares will be quoted on AIM rather than the Official List. The rules of AIM are less demanding than those of the Official List and an investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Company's securities cannot be guaranteed. Investors should be aware that the value of the Ordinary Shares and Placing Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

The market price of the Ordinary Shares and Placing Shares may not reflect the underlying value of the Company's net assets. The price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. On any disposal investors may realise less than the original amount invested.

**ADDITIONAL INFORMATION**

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

# PART II

# ACCOUNTANTS' REPORT ON THE GROUP

Horwath Clark Whitehill

Horwath Clark Whitehill LLP
Chartered Accountants
10 Palace Avenue,
Maidstone
Kent ME15 6NF

The Directors
Jelf Group plc
Fromeforde House
Church Road
Yate
Bristol
BS37 5JB

and

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

15 October 2004

Dear Sirs

**Jelf Group plc ("Jelf" or the "Company") (together with its subsidiaries (the "Jelf Group"))**

## 1 INTRODUCTION

We report on the financial information set out in paragraphs 2 to 6 below. This financial information has been prepared for inclusion in the prospectus of Jelf Group plc dated 15 October 2004 ("the Prospectus") issued in connection with the placing of 3,086,420 new Ordinary Shares of the Company and the application by Jelf for its Enlarged Share Capital to be admitted to trading on the AIM market of the London Stock Exchange Plc.

Jelf was incorporated on 6 October 1994 as Speed 4501 Limited with company number 02975376 and an authorised share capital of £1,000 comprising 1,000 Ordinary Shares of £1 each, 2 of which were issued and fully paid on incorporation. On 27 April 1995, it changed its name to Jelf Insurance Group Limited and changed its name to The Jelf IFM Group Limited on 11 July 2000, before changing its name to The Jelf Group Limited on 9 October 2002.

On 31 March 1995, the authorised share capital of Jelf was increased to £1,000,000 by the creation of 999,000 new shares of £1 each.

On 1 June 1995, 9,998 Ordinary Shares were issued for £416,998.

In November 1999, 2,423 unissued Ordinary Shares of £1 each were converted to "A" Ordinary Shares of £1 each, 1,001 of the unissued Ordinary Shares were converted into "B" Ordinary Shares of £1 each, 1 unissued Ordinary Share was converted into a "C" Ordinary Share of £1.

On 30 November 1999, all of unissued "B" Ordinary Shares and the "C" Ordinary Share were issued at par.

On 5 May 2000, all of the unissued "A" Ordinary Shares were issued at par.

In September 2001 the issued and unissued Ordinary Shares were re-designated as "A" Ordinary Shares.

On 30 January 2002, 2,192 "A" Ordinary Shares of £1 each were issued for £531,100 plus an additional £88,228 in December 2002 which was determined by reference to the profits for the year ended 30 September 2002.

On 27 September 2002, 219 "A" Ordinary Shares were issued in exchange for a minority holding in Jelf Corporate Healthcare Limited and on the same date 254 "A" Ordinary Shares were redeemed for £27,701.

On 30 September 2003, 1,001 "B" Ordinary Shares were redeemed at par.

In December 2003 a further 110 "A" Ordinary Shares were issued for £24,110.

On 25 August 2004, the three classes of Ordinary Share were re-designated as one class of Ordinary Share and were subdivided into 100 Ordinary Shares of 1p each. £88,146 of share premium was capitalised by the issue of 8,814,600 Ordinary Shares of 1p each, credited as fully paid.

On 3 September 2004, Jelf re-registered as a public company and changed its name to Jelf Group plc.

On 6 October 2004, Jelf issued, conditional upon Admission, warrants to subscribe for 170,738 ordinary shares to Daniel Stewart & Company Plc and warrants to subscribe for 133,701 ordinary shares to JM Finn and Co. and warrants to subscribe for 267,402 ordinary shares to Midicorp Corporate Finance Limited. Each warrant entitles the warrant holder to subscribe for one Ordinary Share at the price of 81p commencing on the date of Admission and ending on the fourth anniversary of Admission.

The Company has granted EMI options to subscribe for a total of 150,000 Ordinary Shares to certain of the executive Directors and employees of the Group at an exercise price of 81 pence per share, which will lapse if Admission does not occur prior to 31 December 2004.

**Basis of Preparation**

The financial information set out in paragraphs 2 to 6 of this report is based on the consolidated audited statutory financial statements of the Jelf Group for the three years ended 30 September 2003 and the audited non-statutory financial statements of the Jelf Group for the seven months ended 30 April 2004 (the "Review Period").

**Responsibility**

The financial statements, which form the basis of the financial information in this report, are the responsibility of the directors of Jelf who approved their issue. Horwath Clark Whitehill, Chartered Accountants and Registered Auditors, have audited the financial statements of the Jelf Group for the three years ended 30 September 2003 and their audit reports were unqualified. Horwath Clark Whitehill LLP, Chartered Accountants and Registered Auditors audited the non statutory financial statements of the Jelf Group for the seven months ended 30 April 2004; their audit report was unqualified.

The Directors of Jelf 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. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by Horwath Clark Whitehill and Horwath Clark Whitehill LLP relating to the audit of the financial statements underlying the financial information. Our work also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus dated 15 October 2004, a true and fair view of the state of affairs of the Jelf Group at the dates stated and of its results, cash flows and recognised gains and losses for the periods then ended.

**Consent**

We consent to the inclusion in the Prospectus dated 15 October 2004 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to The Public Offers of Securities Regulations 1995.

## 2 PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information of the Jelf Group.

**Basis of preparation of financial information**

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

**Basis of accounting**

The financial information has been drawn up using the historical cost convention and includes the results of the Jelf Group's operations all of which are continuing.

**Basis of consolidation**

The Jelf Group's financial information consolidates the financial statements of Jelf and all its subsidiary undertakings drawn up to the period end date. Intra group transactions are eliminated on consolidation and all figures relate to external transactions only.

**Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation of fixed assets, less their estimated residual value, over their expected useful lives on the following basis:

| | |
|---|---|
| Leasehold buildings | 100 per cent. in the year of purchase |
| Motor Vehicles | 25 per cent. reducing balance |
| Fixtures and fittings | 15 per cent. reducing balance |
| Computer equipment | 20 per cent. straight line |

**Goodwill**

Goodwill arising on the acquisition of certain subsidiary companies is being amortised on a straight line basis over its estimated useful economic life of ten years.

### Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

### Operating leases

Rentals applicable to operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged against profit and loss account as incurred.

### Income

Income is recognised on a receivable basis. General insurance business brokerage is treated as earned when an invoice is raised for the premium. It is transferred to the office bank account:

(i) when net premiums are paid to insurers, or

(ii) when commission is received from the insurer in those cases where clients pay premiums directly to the insurer.

Clawback provision is made for brokerage repayable to insurance companies where it has been received on indemnity terms at 5% of the commissions received during the trading period.

### Acquisitions

Following acquisition businesses are fully integrated into the existing activities of the Jelf Group. As a result of this the Directors do not consider it practicable to analyse the results of acquired entities beyond the level of contribution to overhead expenditure. In accordance with Financial Reporting Standard No.3 the turnover and contribution to overhead expenditure of acquisitions is shown separately for the year in which the acquisition occurred.

### Pensions

The Jelf Group operates a defined contribution pension scheme for its directors and the pension charge represents the amounts payable by the company to the fund in respect of the period.

The Jelf Group also makes contributions to the personal pension plans of permanent employees. These are charged to the profit and loss account as they arise.

### Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for timing differences arising on revaluations of fixed assets which are not intended to be sold and gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

## 3 CONSOLIDATED PROFIT AND LOSS ACCOUNTS

| | Notes | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| – Existing | 6.1 | 4,260 | 5,550 | 6,213 | 4,598 |
| – Acquired | | – | 364 | 503 | 367 |
| Cost of sales | | (340) | (641) | (433) | (163) |
| **Gross profit** | | | | | |
| – Existing | | 3,920 | 5,229 | 6,149 | 4,643 |
| – Acquired | | – | 44 | 134 | 159 |
| Administrative expenses | | (3,764) | (4,785) | (5,822) | (4,434) |
| **Operating profit** | 6.2 | 156 | 488 | 461 | 368 |
| Income from other investments | | – | 10 | 1 | 5 |
| Interest receivable and similar items | 6.5 | 10 | 15 | 10 | 7 |
| Interest payable and similar items | 6.6 | (24) | (37) | (31) | (22) |
| **Profit on ordinary activities before taxation** | | 142 | 476 | 441 | 358 |
| Taxation on profit on ordinary activities | 6.7 | (80) | (167) | (193) | (135) |
| Profit on ordinary activities after taxation | | 62 | 309 | 248 | 223 |
| Minority Interests – Equity | | (6) | (17) | – | – |
| Profits for the financial period attributable to members of Jelf Group plc | | 56 | 292 | 248 | 223 |
| Profit for the financial period | | 56 | 292 | 248 | 223 |
| Dividend | | (14) | – | – | – |
| **Retained profit for the financial period** | 6.16 | 42 | 292 | 248 | 223 |

All amounts relate to continuing operations.

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

There is no material difference between the results as disclosed in the profit and loss account and the results on an historical cost basis.

## 4 CONSOLIDATED BALANCE SHEETS

| | Notes | *30 September 2001 £'000* | *30 September 2002 £'000* | *30 September 2003 £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible fixed assets | 6.8 | 320 | 693 | 1,122 | 1,859 |
| Tangible assets | 6.9 | 277 | 316 | 362 | 412 |
| Investments | 6.10 | 6 | 25 | 25 | 35 |
| | | 603 | 1,034 | 1,509 | 2,306 |
| **Current assets** | | | | | |
| Debtors | 6.11 | 1,229 | 2,161 | 2,549 | 3,817 |
| Cash | | 505 | 1,113 | 1,265 | 1,110 |
| | | 1,734 | 3,274 | 3,814 | 4,927 |
| **Creditors:** amounts falling due within one year | 6.12 | (1,632) | (2,621) | (3,341) | (4,412) |
| **Net current assets** | | 102 | 653 | 473 | 515 |
| **Total assets less current liabilities** | | 705 | 1,687 | 1,982 | 2,822 |
| **Creditors:** amounts falling due after more than one year | 6.13 | (266) | (394) | (371) | (962) |
| **Provisions for liabilities and charges** | 6.14 | (34) | (106) | (89) | (91) |
| **Net assets** | | 405 | 1,187 | 1,522 | 1,769 |
| **Capital and reserves** | | | | | |
| Called up share capital | 6.15 | 13 | 16 | 15 | 15 |
| Share premium account | 6.16 | 438 | 987 | 1,075 | 1,099 |
| Capital reserve | 6.16 | 13 | 13 | 13 | 13 |
| Capital redemption reserve | 6.16 | – | – | 1 | 1 |
| Profit and loss account | 6.16 | (93) | 171 | 418 | 641 |
| **Shareholders' funds – Equity** | 6.17 | 371 | 1,187 | 1,522 | 1,769 |
| **Minority Interests – Equity** | | 34 | – | – | – |
| | | 405 | 1,187 | 1,522 | 1,769 |

## 5 CONSOLIDATED CASH FLOW STATEMENTS

| | Notes | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|---|
| **Reconciliation of operating profit to net cash inflow from operating activities** | | | | | |
| Operating profit | | 156 | 488 | 461 | 368 |
| Amortisation of intangible assets | | 62 | 100 | 149 | 130 |
| Depreciation of tangible fixed assets | | 75 | 89 | 96 | 60 |
| Profit/(loss) on disposal of tangible fixed assets | | 3 | (2) | 18 | 2 |
| Profit/(loss) on disposal of personal lines | | (29) | – | – | – |
| (Increase)/decrease in debtors | | (37) | (932) | (338) | (1,268) |
| Increase/(decrease) in creditors | | 440 | 779 | 199 | 1,026 |
| (Decrease)/increase in provisions | | 6 | 60 | (25) | (8) |
| Net cash inflow from operating activities | | 676 | 582 | 560 | 310 |
| **Cash Flow Statement** | | | | | |
| Net cash inflow from operating activities | | 676 | 582 | 560 | 310 |
| Returns on investments and servicing of finance | 6.18 | (15) | (12) | (20) | (10) |
| Taxation | | (184) | (65) | (156) | (15) |
| Capital expenditure | 6.18 | (13) | (145) | (146) | (91) |
| Acquisitions and disposals | 6.18 | 29 | (244) | (192) | (373) |
| Equity dividends paid | | (13) | – | – | – |
| Cash (outflow)/inflow before financing | | 480 | 116 | 46 | (179) |
| Financing | 6.18 | 3 | 509 | 135 | 24 |
| Increase/(decrease) in cash in the period | | 483 | 625 | 181 | (155) |
| **Reconciliation of net cash flow to movement in net debt** | | | | | |
| Increase/(decrease) in cash in the period | | 483 | 625 | 181 | (155) |
| Cash (inflow)/outflow from (increase)/decrease in debt and lease financing | | (3) | (8) | (48) | – |
| New deferred consideration | | – | (257) | (346) | (525) |
| Revision of deferred consideration | | – | – | 30 | – |
| New finance leases | | (93) | – | – | – |
| Change in net debt | | 387 | 360 | (183) | (680) |
| Net funds/(debt) at beginning of period | | (214) | 173 | 533 | 350 |
| Net funds/(debt) at end of period | | 173 | 533 | 350 | (330) |

## 6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6.1 Segmental analysis

The directors identify three business sectors insurance broking, financial planning and corporate healthcare. An analysis of turnover, profit before taxation and interest and net assets by business sector is presented below. Business sector data includes an allocation of corporate costs to the sector. There are no sales between business sectors.

| | | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|---|
| **Turnover by business sector** | | | | | |
| Insurance broking | – Existing | 1,081 | 1,436 | 1,771 | 1,691 |
| | – Acquired | – | – | 372 | – |
| Financial planning | – Existing | 2,817 | 3,672 | 3,133 | 2,018 |
| | – Acquired | – | – | 131 | – |
| Corporate healthcare | – Existing | 362 | 442 | 1,309 | 889 |
| | – Acquired | – | 364 | – | 367 |
| External turnover | | 4,260 | 5,914 | 6,716 | 4,965 |
| **Profit before tax by business sector** | | | | | |
| Insurance broking | | 139 | 223 | 198 | 323 |
| Financial planning | | (30) | 148 | 147 | 15 |
| Corporate healthcare | | 47 | 117 | 116 | 30 |
| Operating profit | | 156 | 488 | 461 | 368 |
| Investment income | | – | 10 | 1 | 5 |
| Net interest payable | | (14) | (22) | (21) | (15) |
| Profit before taxation | | 142 | 476 | 441 | 358 |
| Taxation | | (80) | (167) | (193) | (135) |
| Minority Interest | | (6) | (17) | – | – |
| Earnings | | 56 | 292 | 248 | 223 |
| **Net assets by business sector** | | | | | |
| Insurance broking | | (43) | 171 | 411 | 406 |
| Financial planning | | 100 | 104 | 326 | 258 |
| Corporate healthcare | | 175 | 379 | 435 | 1,435 |
| | | 232 | 654 | 1,172 | 2,099 |
| Net funds/(debt) | | 173 | 533 | 350 | (330) |
| Group net assets | | 405 | 1,187 | 1,522 | 1,769 |

All turnover arose within the United Kingdom, the directors regard the Jelf Group as operating in a single geographical sector.

## 6.2 Operating profit

Operating profit is stated after charging/(crediting):

| | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|
| Amortisation of intangible assets | 62 | 100 | 149 | 130 |
| Depreciation | | | | |
| – Owned assets | 69 | 67 | 91 | 59 |
| – Finance leases | 6 | 22 | 5 | 1 |
| Auditors – audit fees | 30 | 38 | 33 | 36 |
| Auditors – non audit fees | 39 | 47 | 13 | 26 |
| Operating lease rentals | | | | |
| – Hire of office equipment | 10 | 14 | 52 | 35 |
| – Other | 127 | 114 | 131 | 105 |

## 6.3 Directors' emoluments

| | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|
| Aggregate emoluments | 698 | 999 | 1,131 | 664 |
| Company pension contributions to money purchase schemes | 47 | 74 | 82 | 66 |
| Compensation for loss of office | 43 | – | 13 | 28 |
| | 788 | 1,073 | 1,226 | 758 |

The numbers of directors who were accruing retirement benefits in respect of pension schemes were:

| | *2001 Number* | *2002 Number* | *2003 Number* | *2004 Number* |
|---|---|---|---|---|
| Money purchase schemes | 6 | 13 | 14 | 12 |

Included in the above are emoluments, excluding pension contributions paid to:

| | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|
| Highest paid director | 119 | 165 | 140 | 93 |
| The accrued retirement benefits to the highest paid director are | 18 | 32 | 30 | 11 |

### 6.4 Staff Costs

Staff costs, including directors' remuneration, were as follows:

The aggregate payroll costs were:

| | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|
| Wages and salaries | 2,213 | 2,883 | 3,249 | 2,461 |
| Social security costs | 225 | 213 | 347 | 271 |
| Other pension costs | 87 | 127 | 153 | 127 |
| | 2,525 | 3,223 | 3,749 | 2,859 |

The weekly average number of staff during the period was:

| | | | | |
|---|---|---|---|---|
| Sales | 29 | 41 | 44 | 46 |
| Administration | 32 | 42 | 57 | 70 |
| Group core | 10 | 9 | 9 | 15 |
| | 71 | 92 | 110 | 131 |

### 6.5 Interest receivable

| | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|
| Bank interest | 9 | 12 | 7 | 5 |
| Other interest receivable | 1 | 3 | 3 | 2 |
| | 10 | 15 | 10 | 7 |

### 6.6 Interest payable

| | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|
| On bank loans and overdrafts | 5 | 3 | 4 | 10 |
| On other loans | 10 | 25 | 21 | 12 |
| | 15 | 28 | 25 | 22 |
| On finance leases and hire purchase contracts | 9 | 9 | 6 | – |
| | 24 | 37 | 31 | 22 |

## 6.7 Taxation

| | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|
| **Current tax** | | | | |
| UK corporation tax on profits for the period | 65 | 155 | 185 | 132 |
| Adjustment in respect of prior periods | 15 | – | – | (7) |
| **Total current tax** | 80 | 155 | 185 | 125 |
| **Deferred tax** | | | | |
| Origination and reversal of timing differences | – | 12 | 8 | 10 |
| **Tax on profit on ordinary activities** | 80 | 167 | 193 | 135 |
| The UK corporation tax is made up as follows: | | | | |
| Profit on ordinary activities before tax | 142 | 476 | 441 | 358 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 and 2002: 30%, 2001: 38%) | 54 | 143 | 132 | 108 |
| Net expenses not deductible for corporation tax purposes | 15 | 18 | 68 | 38 |
| Depreciation in excess of capital allowances for the period/(Capital allowances for the period in excess of depreciation) | 10 | 32 | (7) | (4) |
| Marginal relief | (10) | (24) | (8) | (13) |
| Utilisation of losses | (4) | (14) | – | 3 |
| Adjustments to tax in respect of prior periods | 15 | – | – | (7) |
| **Total current tax** | 80 | 155 | 185 | 125 |

There were no factors that may affect future charges.

## 6.8 Intangible fixed assets

| | *Goodwill* *£'000* | *Negative Goodwill* *£'000* | *Total* *£'000* |
|---|---|---|---|
| **Cost:** | | | |
| At 1 October and 30 September 2001 | 567 | – | 567 |
| Additions | 501 | (28) | 473 |
| At 30 September 2002 | 1,068 | (28) | 1,040 |
| Additions | 608 | – | 608 |
| Revision of deferred consideration | (31) | – | (31) |
| At 30 September 2003 | 1,645 | (28) | 1,617 |
| Additions | 868 | – | 868 |
| At 30 April 2004 | 2,513 | (28) | 2,485 |
| **Depreciation:** | | | |
| At 1 October 2000 | 185 | – | 185 |
| Charge for the period | 62 | – | 62 |
| At 30 September 2001 | 247 | – | 247 |
| Charge for the period | 100 | – | 100 |
| At 30 September 2002 | 347 | – | 347 |
| Charge for the period | 152 | (3) | 149 |
| At 30 September 2003 | 499 | (3) | 496 |
| Charge for the period | 132 | (2) | 130 |
| At 30 April 2004 | 631 | (5) | 626 |
| **Net book value:** | | | |
| 30 September 2001 | 320 | – | 320 |
| 30 September 2002 | 721 | (28) | 693 |
| 30 September 2003 | 1,147 | (25) | 1,122 |
| 30 April 2004 | 1,882 | (23) | 1,859 |

### 6.9 Tangible fixed assets

| | *Land & Buildings £'000* | *Fixtures, Fittings & Equipment £'000* | *Motor vehicles £'000* | *Computer Equipment £'000* | *Total £'000* |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 October 2000 | 25 | 209 | 99 | 197 | 530 |
| Additions | – | 7 | 87 | 49 | 143 |
| Disposals | – | – | (58) | – | (58) |
| At 30 September 2001 | 25 | 216 | 128 | 246 | 615 |
| Additions | – | 56 | – | 71 | 127 |
| Disposals | – | (31) | (21) | (43) | (95) |
| At 30 September 2002 | 25 | 241 | 107 | 274 | 647 |
| Acquired with acquisition | – | 12 | – | 2 | 14 |
| Additions | – | 61 | – | 124 | 185 |
| Disposals | – | (9) | (73) | (8) | (90) |
| At 30 September 2003 | 25 | 305 | 34 | 392 | 756 |
| Acquired with acquisition | – | 20 | – | – | 20 |
| Additions | – | 31 | – | 70 | 101 |
| Disposals | – | – | (24) | – | (24) |
| At 30 April 2004 | 25 | 356 | 10 | 462 | 853 |
| **Depreciation:** | | | | | |
| At 1 October 2000 | 18 | 99 | 34 | 131 | 282 |
| Provision for the period | 7 | 17 | 23 | 28 | 75 |
| Disposals | – | – | (19) | – | (19) |
| At 30 September 2001 | 25 | 116 | 38 | 159 | 338 |
| Provision for the period | – | 17 | 23 | 49 | 89 |
| Disposals | – | (31) | (22) | (43) | (96) |
| At 30 September 2002 | 25 | 102 | 39 | 165 | 331 |
| Provision for the period | – | 26 | 11 | 59 | 96 |
| Disposals | – | – | (33) | – | (33) |
| At 30 September 2003 | 25 | 128 | 17 | 224 | 394 |
| Provision for period | – | 18 | 1 | 41 | 60 |
| Disposals | – | – | (13) | – | (13) |
| At 30 April 2004 | 25 | 146 | 5 | 265 | 441 |
| **Net book value:** | | | | | |
| 30 September 2001 | – | 100 | 90 | 87 | 277 |
| 30 September 2002 | – | 139 | 68 | 109 | 316 |
| 30 September 2003 | – | 177 | 17 | 168 | 362 |
| 30 April 2004 | – | 210 | 5 | 197 | 412 |

### 6.9 Tangible fixed assets (continued)

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

| | *30 September 2001 £'000* | *30 September 2002 £'000* | *30 September 2003 £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|
| Motor vehicles | 81 | 54 | 12 | – |
| Computer equipment | 19 | 16 | 4 | 3 |
| | 100 | 70 | 16 | 3 |

### 6.10 Fixed asset investments

| | *30 September 2001 £'000* | *30 September 2002 £'000* | *30 September 2003 £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|
| Cost of listed investments | 6 | 25 | 25 | 35 |
| Market value of listed investments | 4 | 20 | 17 | 26 |

### 6.11 Debtors

| | *30 September 2001 £'000* | *30 September 2002 £'000* | *30 September 2003 £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|
| Trade debtors | 1,105 | 1,991 | 2,299 | 3,581 |
| Other debtors | 21 | 56 | 118 | 60 |
| Prepayments and accrued income | 103 | 114 | 132 | 176 |
| | 1,229 | 2,161 | 2,549 | 3,817 |

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

| | *30 September 2001 £'000* | *30 September 2002 £'000* | *30 September 2003 £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|
| Bank loans and overdrafts | 56 | 79 | 105 | 178 |
| Net obligations under finance leases and hire purchase contracts | 33 | 15 | 13 | 1 |
| Trade creditors | 1,008 | 1,767 | 1,998 | 2,933 |
| Corporation tax | 65 | 155 | 184 | 294 |
| Social security and other taxes | 89 | 68 | 111 | 124 |
| Other creditors | 153 | 306 | 544 | 370 |
| Accruals and deferred income | 228 | 231 | 386 | 512 |
| | 1,632 | 2,621 | 3,341 | 4,412 |

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

| | *30 September 2001 £'000* | *30 September 2002 £'000* | *30 September 2003 £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|
| Bank loans and overdrafts | 126 | 224 | 358 | 546 |
| Net obligations under finance leases and hire purchase contracts | 54 | 38 | 1 | – |
| Other creditors | 86 | 132 | 12 | 416 |
| | 266 | 394 | 371 | 962 |

Included within the above are amounts falling due as follows:

| | *30 September 2001 £'000* | *30 September 2002 £'000* | *30 September 2003 £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|
| Between 1 and 2 years | 66 | 88 | 109 | 182 |
| Between 2 and 5 years | 46 | 134 | 233 | 358 |
| Amounts more than 5 years | 67 | 39 | 17 | 6 |
| | 179 | 261 | 359 | 546 |

Loans include the following repayable in monthly instalments:

| | *Original Advance £'000* | *Interest rate above Base Rate %* | *Repayment Date* |
|---|---|---|---|
| Unsecured Loan | 179 | 2.00 | March 2009 |
| Secured Loan 1 | 200 | 1.75 | October 2006 |
| Secured Loan 2 | 280 | 1.75 | January 2008 |
| Secured Loan 3 | 350 | 1.95 | December 2008 |

### 6.14 Provisions for Liabilities and Charges

| | *Deferred taxation £'000* | *Clawback provision £'000* | *Total £'000* |
|---|---|---|---|
| At 30 September 2000 | – | 28 | 28 |
| Charge/(Credit) for the period | – | 6 | 6 |
| At 30 September 2001 | – | 34 | 34 |
| Charge/(Credit) for the period | 12 | 60 | 72 |
| At 30 September 2002 | 12 | 94 | 106 |
| Charge/(Credit) for the period | 8 | (25) | (17) |
| At 30 September 2003 | 20 | 69 | 89 |
| Charge/(Credit) for the period | 10 | (8) | 2 |
| At 30 April 2004 | 30 | 61 | 91 |

The deferred tax provision comprises:

| | *30 September 2001 £'000* | *30 September 2002 £'000* | *30 September 2003 £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|
| Excess of capital allowances over depreciation charged | – | 14 | 20 | 30 |
| Short term timing differences | – | (2) | – | – |
| | – | 12 | 20 | 30 |

A full provision for deferred taxation was made in all periods.

Deferred taxation is charged at 30% (2003: 30%; 2002: 30%; 2001 30%).

### 6.15 Share capital

| | *30 September 2001 £'000* | *30 September 2002 £'000* | *30 September 2003 £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|
| **Authorised:** | | | | |
| 'A' Ordinary shares of £1 each | 999 | 999 | 999 | 999 |
| 'B' Ordinary shares of £1 each | 1 | 1 | 1 | 1 |
| 'C' Ordinary share of £1 | – | – | – | – |
| | 1,000 | 1,000 | 1,000 | 1,000 |
| **Allotted, called up and fully paid:** | | | | |
| 'A' Ordinary shares of £1 each | 12 | 15 | 15 | 15 |
| 'B' Ordinary shares of £1 each | 1 | 1 | – | – |
| 'C' Ordinary share of £1 | – | – | – | – |
| | 13 | 16 | 15 | 15 |

Details of Jelf's share issues are set out in Part 1 of this report.

### 6.16 Reserves

| | *Share Premium account £'000* | *Capital reserve £'000* | *Capital redemption reserve £'000* | *Profit & Loss Account £'000* |
|---|---|---|---|---|
| At 1 September 2000 | 438 | 13 | – | (135) |
| Retained profit for the period | – | – | – | 42 |
| At 30 September 2001 | 438 | 13 | – | (93) |
| Premium on issue of shares | 549 | – | – | |
| Purchase of own shares | – | – | – | (28) |
| Retained profit for the period | – | – | – | 292 |
| At 30 September 2002 | 987 | 13 | – | 171 |
| Premium on issue of shares | 88 | – | – | – |
| Purchase of own shares | – | – | 1 | (1) |
| Retained profit for the period | – | – | – | 248 |
| At 30 September 2003 | 1,075 | 13 | 1 | 418 |
| Premium on issue of shares | 24 | – | – | – |
| Retained profit for the period | – | – | – | 223 |
| At 30 April 2004 | 1,099 | 13 | 1 | 641 |

### 6.17 Shareholders' Funds

| | *30 September 2001 £'000* | *30 September 2002 £'000* | *30 September 2003 £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|
| Profit for the financial period | 56 | 292 | 248 | 223 |
| Dividends | (14) | – | – | – |
| Shares issued during the period | – | 552 | 88 | 24 |
| Purchase of own shares | – | (28) | (1) | – |
| Opening shareholders' funds | 329 | 371 | 1,187 | 1,522 |
| Closing shareholders' funds | 371 | 1,187 | 1,522 | 1,769 |

## 6.18 Gross Cash Flows

| | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|
| **Returns on investments and servicing of finance** | | | | |
| Interest received | 10 | 15 | 10 | 7 |
| Interest paid | (16) | (28) | (25) | (22) |
| Interest element of finance lease rentals | (9) | (9) | (6) | – |
| Income received from investments | – | 10 | 1 | 5 |
| | (15) | (12) | (20) | (10) |
| **Capital expenditure** | | | | |
| Purchase of intangible fixed assets | – | – | – | – |
| Purchase of tangible fixed assets | (50) | (127) | (185) | (101) |
| Sale of intangible fixed assets | – | 1 | – | – |
| Sale of tangible fixed assets | 37 | – | 39 | 10 |
| Purchase of listed investments | – | (19) | – | – |
| | (13) | (145) | (146) | (91) |
| **Acquisitions and disposals** | | | | |
| Purchase of subsidiary undertaking | – | (244) | (287) | (373) |
| Net cash acquired with subsidiary | – | – | 95 | – |
| Sale of personal lines | 29 | – | – | – |
| | 29 | (244) | (192) | (373) |
| **Financing** | | | | |
| Receipts from share issue | – | 529 | 88 | 24 |
| Purchase of own shares | – | (28) | (1) | – |
| **Issue of shares** | – | 501 | 87 | 24 |
| New loans | 63 | 200 | 280 | 350 |
| Repayment of loans and deferred consideration | (15) | (158) | (193) | (337) |
| Capital element of finance lease rentals | (45) | (34) | (39) | (13) |
| **Increase/(Decrease) in debt** | 3 | 8 | 48 | – |
| | 3 | 509 | 135 | 24 |

## 6.19 Analysis of Changes in Net Funds/Debt

| | *1 October 2000 £'000* | *Cash Flows £'000* | *Non Cash £'000* | *30 September 2001 £'000* | *Cash Flows £'000* | *Non Cash £'000* | *30 September 2002 £'000* | *Cash Flows £'000* | *Non Cash £'000* | *30 September 2003 £'000* | *Cash Flows £'000* | *Non Cash £'000* | *30 April 2004 £'000* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net cash:** | | | | | | | | | | | | | |
| Cash at bank and in hand | 284 | 221 | – | 505 | 608 | – | 1,113 | 152 | – | 1,265 | (155) | – | 1,110 |
| Bank overdrafts | (308) | 262 | – | (45) | 17 | – | (28) | 28 | – | – | – | – | – |
| | (24) | 483 | – | 460 | 625 | – | 1,085 | 180 | – | 1,265 | (155) | – | 1,110 |
| **Debt:** | | | | | | | | | | | | | |
| Finance leases | (39) | 45 | (93) | (87) | 34 | – | (53) | 39 | – | (14) | 13 | – | (1) |
| Deferred consideration | (63) | – | – | (63) | 96 | (257) | (224) | 102 | (316) | (438) | 248 | (525) | (715) |
| Bank Loans | (89) | (48) | – | (137) | (138) | – | (275) | (188) | – | (463) | (261) | – | (724) |
| | (191) | (3) | (93) | (287) | (8) | (257) | (552) | (47) | (316) | (915) | – | (525) | (1,440) |
| **Net debt** | (215) | 480 | (93) | 173 | 617 | (257) | 533 | 133 | (316) | 350 | (155) | (525) | (330) |

## 6.20 Commitments under Operating Leases

Annual commitments under non-cancellable operating leases at each period end are as follows:

| | *30 September 2001* | | | *30 September 2002* | | |
|---|---|---|---|---|---|---|
| | *Land and Buildings £'000* | *Other £'000* | *Total £'000* | *Land and Buildings £'000* | *Other £'000* | *Total £'000* |
| Expiring within one year | – | – | – | – | – | – |
| Expiring in two to five years | – | – | – | – | – | – |
| Expiring after five years | 81 | – | – | 81 | – | – |
| | 81 | – | – | 81 | – | – |

| | *30 September 2003* | | | *30 April 2004* | | |
|---|---|---|---|---|---|---|
| | *Land and Buildings £'000* | *Other £'000* | *Total £'000* | *Land and Buildings £'000* | *Other £'000* | *Total £'000* |
| Expiring within one year | – | 14 | 14 | 11 | 5 | 16 |
| Expiring in two to five years | 30 | 21 | 51 | 14 | 21 | 35 |
| Expiring after five years | 120 | – | 120 | 153 | – | 153 |
| | 150 | 35 | 185 | 178 | 26 | 204 |

## 6.21 Related party transactions

Group companies paid a total of £67,000 (2003: £81,000, 2002: £81,000, 2001: £81,000) to Jelf Insurance Group Directors' Retirement and Death Benefit Scheme for rent of the buildings from which they operate. The Pension Scheme is deemed to be a related party because six of the Group's directors are the Scheme's only members. At the period end, an amount equal to £Nil (2003: £Nil, 2002: £Nil, 2001: £40,000) was owed by the Group to Jelf Insurance Group Directors' Retirement and Death Benefit Scheme, which is included within other creditors falling due both within one year and after one year.

**6.22 Post Balance Sheet Events**

On 25 August 2004, the three classes of Ordinary Share were re-designated as one class of Ordinary Share and were subdivided into 100 Ordinary Shares of 1p each. £88,146 of share premium was capitalised by the issue of 8,814,600 Ordinary Shares of 1p each, credited as fully paid.

On 3 September 2004, Jelf re-registered as a public company with the name Jelf Group plc.

On 6 October 2004, Jelf issued, conditional upon Admission, warrants to subscribe for 170,738 ordinary shares to Daniel Stewart & Company Plc and warrants to subscribe for 133,701 ordinary shares to JM Finn and Co. and warrants to subscribe for 267,402 ordinary shares to Midicorp Corporate Finance Limited. Each warrant entitles the warrant holder to subscribe for one Ordinary Share at the price of 81p commencing on the date of Admission and ending on the fourth anniversary of Admission.

The Company has granted EMI options to subscribe for a total of 150,000 Ordinary Shares to certain of the executive Directors and employees of the Group at an exercise price of 81 pence per share, which will lapse if Admission does not occur prior to 31 December 2004.

**6.23 Acquisitions**

During the review period Jelf Group made the following acquisitions:

| | *Date of acquisition* | *Business segment* |
|---|---|---|
| The Corporate Health Management Group | 26 October 2001 | Corporate healthcare |
| Spring Gate Insurance Services | 30 August 2002 | Insurance broking |
| Richard Levinge Associates | 24 January 2003 | Financial planning |
| Kallender Walwyn Limited | 31 January 2003 | Insurance broking |
| SLF Insurance (Services) Ltd | 3 February 2003 | Insurance broking |
| Pontin & Stein | 12 December 2003 | Corporate healthcare |
| You at work | 19 December 2003 | Corporate healthcare |

The fair value tables in respect of these acquisitions can be summarised as follows:

| | *Year ended 30 September 2001 £'000* | *Year ended 30 September 2002 £'000* | *Year ended 30 September 2003 £'000* | *Seven months ended 30 April 2004 £'000* |
|---|---|---|---|---|
| **Net assets acquired:** | | | | |
| Fixed Assets | – | – | 14 | 20 |
| Investments | – | – | – | 10 |
| Debtors | – | – | 50 | – |
| Cash at bank | – | – | 95 | – |
| Creditors due within one year | – | – | (131) | – |
| Creditors falling due after one year | – | – | (3) | – |
| | – | – | 25 | 30 |
| **Satisfied by:** | | | | |
| Cash | – | 233 | 264 | 373 |
| Deferred consideration | – | 257 | 346 | 525 |
| Acquisition costs | – | 11 | 23 | – |
| | – | 501 | 633 | 898 |
| Goodwill | – | 501 | 608 | 868 |

In all cases the directors considered the book values of assets in the acquired entities not to be materially different to fair the value of the assets acquired.

Deferred consideration is dependent upon a number of criteria including future turnover levels and is to be satisfied in cash. The directors have provided for deferred consideration at their best estimate of the liability which is the maximum payable. Due to the nature of deferred consideration final amounts paid may be reduced with a resulting adjustment to goodwill.

## 6.24 Derivatives and other financial instruments

Derivatives and financial instruments have not been used during the Review Period in creating or changing the risks Jelf Group faces. As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures.

*Interest rate profile*

The interest rate profile of Jelf Group financial liabilities were as follows:

| *Currency* | *No interest paid £'000* | *Fixed rate £'000* | *Floating rate £'000* | *Total £'000* |
|---|---|---|---|---|
| **30 September 2001** | | | | |
| Sterling borrowings | 63 | 87 | 182 | 332 |
| **30 September 2002** | | | | |
| Sterling borrowings | 224 | 53 | 303 | 580 |
| **30 September 2003** | | | | |
| Sterling borrowings | 438 | 14 | 463 | 915 |
| **30 April 2004** | | | | |
| Sterling borrowings | 715 | 1 | 724 | 1,440 |

| | *Fixed rate* | | *No interest paid* |
|---|---|---|---|
| *Currency* | *Weighted average interest rate %* | *Weighted average period for which rate is fixed Years* | *Weighted average period until maturity Years* |
| **30 September 2001** | | | |
| Sterling borrowings | 14.0 | 2.1 | 1.0 |
| **30 September 2002** | | | |
| Sterling borrowings | 12.0 | 1.4 | 0.6 |
| **30 September 2003** | | | |
| Sterling borrowings | 10.0 | 0.7 | 0.7 |
| **30 April 2004** | | | |
| Sterling borrowings | 10.0 | 0.2 | 1.5 |

The floating rate financial liabilities comprise sterling denominated bank borrowings and overdrafts that bear interest at rates based upon LIBOR as detailed in note 6.13.

*Maturity of financial liabilities*

The maturity profile of Jelf Group financial liabilities during the Review Period is given in notes 6.12 and 6.13.

*Currency exposures*

Jelf Group operations are handled almost entirely in sterling.

Yours faithfully

Horwath Clark Whitehill LLP

# PART III

# ADDITIONAL INFORMATION

## 1. INCORPORATION

1.1 The Company was incorporated in England and Wales on 6 October 1994 as a private limited company under the Act with the name Speed 4501 Limited registered number 2975376. On 27 April 1995 the Company changed its name to Jelf Insurance Group Limited, on the 11 July 2000 the Company changed its name to The Jelf IFM Group Limited and on the 9 October 2002 the Company changed its name to The Jelf Group Limited. On 3 September 2004, the Company re-registered as a public company with the name Jelf Group plc.

1.2 The Company's registered office is at Fromeforde House, Church Road, Yate, Bristol BS37 5JB.

1.3 The Company is subject to the provisions of the Act.

1.4 The liability of the members is limited.

## 2. SHARE CAPITAL OF THE COMPANY

2.1 The authorised and issued share capital of the Company at the date of this document and as it will be upon Admission, is/will be as follows:

| | *Authorised* | | *Issued and to be issued fully paid* | |
|---|---|---|---|---|
| | *Number of Ordinary Shares of 1 pence each* | *£* | *Number of Ordinary Shares of 1 pence each* | *£* |
| Current | 100,000,000 | 1,000,000 | 10,283,700 | 102,837 |
| On Admission | 100,000,000 | 1,000,000 | 13,370,120 | 133,701 |

2.2 The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 shares of £1 each. On 31 March 1995, the authorised share capital of the Company was increased from £1,000 to £1,000,000 by the creation of 999,000 new shares of £1 each which ranked *pari passu* in all respects with the existing shares in the capital of the Company.

2.3 By an ordinary resolution dated 30 November 1999, the members of the Company resolved that:

2.3.1 each of the existing issued ordinary shares of £1 each in the capital of the Company were converted into an "A" ordinary share of £1 having the rights set out in the articles of association adopted by a special resolution on that date;

2.3.2 1,001 of the existing unissued ordinary shares of £1 each in the capital of the Company were converted into "B" ordinary shares of £1 each having the rights set out in the articles of association adopted by a special resolution on that date;

2.3.3 1 of the existing unissued ordinary shares of £1 in the capital of the Company was converted into a "C" ordinary share of £1 having the rights set out in the articles of association adopted by a special resolution on that date; and

2.3.4 each of the remaining 988,998 unissued ordinary shares of £1 each in the capital of the Company were converted into a "A" ordinary share of £1 having the rights set out in the articles of association adopted by a special resolution on that date.

2.4 On 25 August 2004, by way of special resolution, the Company resolved:

2.4.1 that the three classes of ordinary shares be re-designated as one class of ordinary shares;

2.4.2 that each issued and unissued ordinary share of £1 be sub-divided into 100 ordinary shares of 1p each;

2.4.3 that there be a capitalisation of £88,146 of share premium by the issue of 8,814,600 additional ordinary shares of 1p each, credited as fully paid;

2.4.4 that the Company be re-registered as a public company with the name Jelf Group plc;

2.4.5 that amendments be made to the Memorandum of Association and new Articles of Association be adopted.

2.5 On 6 October 2004, pursuant to an ordinary resolution, the Directors were generally and unconditionally, for the purposes of Section 80 of the Act, authorised to allot relevant securities up to an aggregate nominal amount of £110,000 such authority to expire on 5 October 2009 save that the Company may, at any time before such expiry, make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if such authority had not expired.

2.6 On 6 October 2004, pursuant to a special resolution, the Directors were empowered pursuant to Section 95 of the Act to allot equity securities as if the statutory pre-emption rights under Section 89(1) of the Act did not apply to any such allotment, with such power being limited to the allotment of equity securities:

2.6.1 in connection with rights issues, open offers and equivalent offers;

2.6.2 pursuant to the terms of the EMI Options;

2.6.3 pursuant to the Warrant Instrument;

2.6.4 otherwise than pursuant to the above, up to an aggregate nominal amount of £60,000;

with such authority expiring at the conclusion of the next annual general meeting of the Company, or fifteen months after the date of such authority if earlier, save that the Company may at any time before such expiry make offers or agreements which would or might require equity securities to be allotted for cash after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred had not expired.

2.7 Save as disclosed in this document:

2.7.1 no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option;

2.7.2 no issue of Ordinary Shares will be made which will effectively alter the control of the Company without the prior approval of the Company in general meeting.

2.8 At the date of this document, the Company has granted options to directors and certain employees of the Group as detailed in paragraph 9 below and has granted Warrants as detailed in paragraph 8 below. Save as set out in this document, the Company does not have in issue any securities not representing share capital and there are no outstanding convertible securities issued by the Company.

## 3. SUBSIDIARIES

3.1 The Company has the following wholly owned subsidiaries:

| *Name of Company* | *Date of Incorporation* | *Business* |
|---|---|---|
| Jelf Corporate Healthcare Ltd | 26.09.1997 | Healthcare Insurance |
| Jelf IFM Financial Planning Ltd | 23.06.1995 | Financial Services |
| Jelf Insurance Brokers Ltd | 13.04.1994 | Insurance |
| Jelf Insurance Brokers (Wessex) Ltd | 06.11.2002 | Insurance |

3.2 The Company is also the ultimate parent company of the following Group companies, all of which are dormant:

| *Name of Company* | *Date of Incorporation* |
|---|---|
| Bath Financial Planning Ltd | 25.07.2001 |
| Corporate Healthcare Management Group Ltd | 18.02.2002 |
| The Corporate Healthcare Management Ltd | 18.02.2002 |
| Corporate Healthcare Services Ltd | 18.02.2002 |
| Drinkpalace Ltd | 01.02.1991 |
| IFM/RLS Partnership Ltd | 23.07.1998 |
| Jelf Corporate Consultancy Ltd | 08.02.2002 |
| Jelf Credit Insurance Services Ltd | 06.11.2002 |
| Jelf Financial Services Ltd | 13.04.1994 |
| Jelf Private Clients Ltd | 30.06.2003 |
| Jelf Professional Consultancy Ltd | 08.12.2001 |
| Kallender Walwyn Ltd | 24.01.2001 |
| SLF Insurance Services Ltd | 18.12.1984 |

## 4. DIRECTORS' AND OTHER INTERESTS

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

Christopher Jelf (Group Chairman);
Alexander Alway (Group Chief Executive);
Peter Elliott (Healthcare Managing Director);
John Harding (Finance and Operations Director)

all of Fromeforde House, Church Road, Yate, Bristol BS37 5JB.

4.2 The interests (all of which are beneficial save where otherwise stated) of the Directors in the issued share capital of the Company as at the date of this document and following Admission, such interests being those which are required to be entered in the register of interests maintained under section 325 of the Act or which are required to be notified to the Company pursuant to section 324 or 328 of the Act or which are interests of persons connected with the Directors (within the meaning of section 346 of the Act) the existence of which is known or which could with reasonable diligence be ascertained by a Director, are and will upon Admission be:

| | *As at the date of this document* | | | *Upon Admission* | |
|---|---|---|---|---|---|
| *Name* | *No. of Ordinary Shares* | *% of issued Ordinary Shares* | *Options* | *No. of Ordinary Shares* | *% of issued Ordinary Shares* |
| John Harding | 201,600 | 1.96 | 50,000 | 201,600 | 1.51 |
| Alexander Douglas Alway | 1,080,800 | 10.51 | nil | 1,080,800 | 8.08 |
| Peter Elliott* | 892,500 | 8.68 | nil | 892,500 | 6.68 |
| Christopher Jelf** | 3,105,200 | 30.20 | nil | 3,105,200 | 23.22 |

* 72,100 of the 714,700 Ordinary Shares which are registered in the name of Hazell Carr Pensions Services Limited (trustees of the Company's self administered pension scheme), are beneficially owned by Peter Elliott through his interest in that company's special self administered pension scheme.

** 205,800 of the 714,700 Ordinary Shares which are registered in the name of Hazell Carr Pensions Services Limited (trustees of the Company's self administered pension scheme) are beneficially owned by Christopher Jelf through his interest in that company's special self administered pension scheme.

Hazell Carr Pensions Services Limited (as trustees of the Company's special self administered pension scheme) is the registered holder of 714,700 Ordinary Shares amounting to 6.95 per cent. of the Company's issued share capital at the date of this document.

4.3 Save as disclosed in this document, no Director (or any person connected with him within the meaning of Section 346 of the Act ) has any interest, beneficial or non-beneficial, in the share capital of the Company.

4.4 Save as disclosed in this document, none of the Directors has or has had an interest in any transaction effected by any shareholder of the Company which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which was effected during the current year or any earlier financial year and remains in any respect outstanding or unperformed.

4.5 The aggregate of the remuneration and benefits paid to the Directors in respect of the Company's last completed financial year was £1,227,000. The aggregate of the remuneration and benefits granted to the Directors in respect of the Company's current financial year is estimated, under the arrangements in force at the date of this document, to be approximately £1,317,000.

4.6 Save as disclosed in this document, there will be no variation in the total emoluments receivable by the Directors as a result of the Placing and Admission.

4.7 There are no outstanding loans or guarantees provided by the Company to or for the benefit of any of the Directors.

4.8 Save as disclosed in paragraph 4.2 above, the Company is only aware of the following persons who at the date of this document and upon Admission, have or will have, interests of 3 per cent. or more of the issued ordinary share capital of the Company or who could otherwise directly or indirectly, jointly or severally, exercise control over the Company:

| | *As at the date of this document* | | | *Upon Admission* | |
|---|---|---|---|---|---|
| *Name* | *No. of Ordinary Shares* | *% of issued Ordinary Shares* | *Options* | *No. of Ordinary Shares* | *% of issued Ordinary Shares* |
| Gary John Chandler | 1,043,700 | 10.15 | nil | 1,043,700 | 7.81 |
| Chris Clarke | 1,043,700 | 10.15 | nil | 1,043,700 | 7.81 |
| Hazell Carr Pensions Services Ltd * | 714,700 | 6.95 | nil | 714,700 | 5.35 |
| Glenn Thomas | 434,700 | 4.23 | nil | 434,700 | 3.25 |

*Hazell Carr Pensions Services Limited as trustees of the Company's special self administered pension scheme is the registered holder of 714,700 Ordinary Shares, of which Christopher Jelf is the beneficial owner of 205,800 Ordinary Shares and Peter Elliott is the beneficial owner of 72,100 Ordinary Shares.

4.9 Save for their directorships of the Company, the Directors currently hold the following directorships, and have or have held the following directorships within the five years prior to the publication of this document, and are currently partners, or have been partners within the five years prior to the publication of this document, of the following firms or partnerships:

| | *Current Directorships* | *Former Directorships* |
|---|---|---|
| Chris Jelf | Drinkpalace Ltd<br>IFM/RLS Partnership Ltd<br>Jelf Corporate Healthcare Ltd<br>Jelf Financial Services Ltd<br>Jelf IFM Financial Planning Ltd<br>Jelf Insurance Brokers Ltd<br>Jelf Professional Consultancy Ltd | Eurosports Management Ltd |

| | *Current Directorships* | *Former Directorships* |
|---|---|---|
| Alexander Alway | Bath Financial Planning Ltd<br>Corporate Healthcare Management Ltd<br>The Corporate Healthcare Management Group Ltd<br>Corporate Healthcare Services Ltd<br>Jelf Corporate Consultancy Ltd<br>Jelf Corporate Healthcare Ltd<br>Jelf Credit Insurance Services Ltd<br>Jelf IFM Financial Planning Ltd<br>Jelf Insurance Brokers Ltd<br>Jelf Insurance Brokers (Wessex) Ltd<br>Jelf Private Clients Ltd<br>Jelf Professional Consultancy Ltd<br>Kallender Walwyn Ltd<br>SLF Insurance (Services) Ltd<br>V.J. Property Ltd | AXA Investment Managers Deutschland Ltd<br>AXA Investment Managers AWF Services Ltd<br>Sun Life SMC Ltd |
| Peter Elliott | Jelf Corporate Healthcare Ltd | None |
| John Harding | John Harding Services Limited<br>Bath and Investment Building Society | None |

4.10 No Director has:

4.10.1 any unspent convictions in relation to indictable offences;

4.10.2 had a bankruptcy order made against him or entered into an individual voluntary arrangement;

4.10.3 been a director of any company, at the time or within 12 months preceding the date of its receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or composition or arrangement with its creditors generally or with any class of creditors;

4.10.4 been a partner in any partnership at the time of or within 12 months preceding the date of its compulsory liquidation, administration or partnership voluntary arrangement;

4.10.5 been the owner of any asset which was placed into receivership or a partner in any partnership which had an asset placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

4.10.6 had any public criticism against him by any statutory or regulatory authority (including recognised professional bodies); or

4.10.7 been disqualified by a court from acting as a director or acting in the management or conduct of the affairs of any company.

## 5. DIRECTORS SERVICE AGREEMENTS AND APPOINTMENTS

5.1 The services of the Directors are provided to the Company under the following agreements:

5.1.1 Chris Jelf is appointed to the Board as Group Chairman pursuant to the terms of a letter of appointment dated 5 October 2004. On 30 January 2002 Chris Jelf entered into separate service agreements with Jelf IFM Financial Planning Limited and Jelf IFM Insurance Services, both of which was varied pursuant to a letter dated 2 September 2004.

5.1.2 Alex Alway is appointed to the Board as Chief Executive Director of the Group subject to the terms of a letter of appointment dated 5 October 2004. On 30 March 2001 Alex Alway entered into a service agreement with Jelf IFM Financial Planning Limited which was varied pursuant to a letter dated 2 September 2004.

5.1.3 John Harding is appointed to the Board as Finance and Operations Director subject to the terms of a letter of appointment dated 5 October 2004. On 1 July 2004 John Harding entered into a service agreement with Jelf Insurance Brokers Limited.

5.1.4 Peter Elliott is appointed to the Board as an Executive Director subject to the terms of a letter of appointment dated 5 October 2004. On 19 July 2000 Peter Elliott entered into a service agreement with Jelf Corporate Healthcare Limited which was varied pursuant to a letter dated 2 September 2004.

5.2 The principal terms of the Directors' service agreements and letters of appointment are as follows:

| *Director* | *Annual Remuneration* | *Notice Period* |
|---|---|---|
| Christopher Jelf | £160,000 | 12 months' notice |
| Alex Alway | £100,000 | 12 months' notice |
| John Harding | £83,000 | 12 months' notice |
| Peter Elliott | £95,000 | 12 months' notice |

In addition, certain of the executive Directors are entitled to up to 10 per cent. monthly contributions to a self administered pension scheme, life assurance of four times his gross basic salary and private medical insurance for himself and his immediate family. Each executive is also entitled to a bonus at the sole discretion of the Board. The executive Directors are restricted for a period of 12 months following termination from (amongst other things) (i) undertaking insurance business of a client of the Group which is similar to the insurance business of the Group company in which the executive Director was materially involved (ii) soliciting clients of the Group or (iii) from enticing away any employee of the Group.

## 6. PREMISES

The head office of the Company is at Fromeforde House, Church Road, Yate, Bristol BS37 5JB.

## 7. MATERIAL CONTRACTS

The following contracts (not being a contract entered into in the ordinary course of business) had been entered into by the Company and members of the Group within the two years immediately the date of this document and are or may be material:

7.1 The Placing Agreement dated 15 October 2004 between the partners of JM Finn (1) Daniel Stewart (2) the Company (3) and the Directors (4) pursuant to which JM Finn agreed, conditionally, *inter alia*, upon Admission, to use its reasonable endeavours to procure placees for the Placing Shares at the Placing Price. Under the terms of the Placing Agreement, the Company has agreed to pay JM Finn a corporate finance fee and commission of 3.75 per cent. of the value of Placing Shares subscribed for at the Placing Price and expenses of the Placing, including professional charges, and to pay Daniel Stewart a corporate finance fee and commission of 0.75 per cent. of the value of the Placing Shares subscribed for at the Placing Price. Upon Admission, the Company will grant JM Finn warrants to subscribe for 133,701 Ordinary Shares and Daniel Stewart warrants to subscribe for 170,738 Ordinary Shares, both at the Placing Price. The Placing Agreement contains certain representations and warranties given by the Directors and the Company and (in respect only of the Company) an indemnity in favour of each of JM Finn and Daniel Stewart together with provisions which enable each of JM Finn and Daniel Stewart to terminate the Placing Agreement in certain circumstances prior to the completion of the Placing, including (amongst other matters) circumstances where any warranties are found to be untrue or inaccurate in any material respect;

7.2 A broker agreement dated 15 October 2004 made between J.M. Finn (1) and the Company (2) pursuant to which JM Finn has been appointed to act as broker for the purposes of the Placing and Admission. The Company has agreed to pay JM Finn an annual fee of £25,000 plus VAT disbursements, and expenses for its services as broker. The agreement is fixed for a period of 12 months and subject to termination on 3 months notice by either party thereafter;

7.3 A nominated adviser agreement dated 15 October 2004 made between Daniel Stewart (1) and the Company (2) pursuant to which Daniel Stewart has been appointed to act as nominated adviser for the purpose of the AIM Rules. The Company has agreed to pay Daniel Stewart a corporate finance fee of £25,000 plus VAT disbursements, and expenses for its services as nominated adviser. The agreement is fixed for a period of 12 months and subject to termination on 3 months notice by either party thereafter;

7.4 Lock-in agreements dated 22 September 2004 between JM Finn, Daniel Stewart, the Company and each of the Shareholders under which each of the Shareholders have agreed with J.M. Finn, Daniel Stewart and the Company not to dispose of any interest in Ordinary Shares in the Company for a period of 12 months from the date of Admission, except in limited circumstances. The agreements also contains orderly market provisions, which apply for a further 12 months after the expiry of the lock-in period;

7.5 On 31 January 2003, the Company acquired the entire issued share capital of Kallender Walwyn Limited from D.W. Jones, R.A. Smith and Others. The initial consideration of £115,000 has been satisfied although deferred consideration may be payable up to a maximum additional sum of £195,000 of which £97,500 has been paid leaving the sum of £97,500 being payable on 31 January 2005, subject to certain conditions. The Board estimates that the conditions will be satisfied and the full payment will be required to be made. Under this agreement, the vendors gave general warranties and a tax indemnity for the benefit of the Company. The warranty period will expire on 31 January 2005 (for general warranties) and 31 January 2009 (for tax warranties);

7.6 On 24 January 2003, Jelf Financial Planning Limited, acquired as a going concern the business and assets of Richard Levinge Associates from Richard Levinge. The initial consideration of £74,250 has been satisfied, although additional consideration of up to an aggregate of £90,750 may be payable on 24 April 2004, 2005 and 2006 subject to satisfaction of certain conditions and targets. The conditions and targets were satisfied in respect of the current year and additional consideration of £41,250 was paid to the vendors. Under this agreement, the vendor gave general business warranties for the benefit of Jelf Financial Planning Limited. The period of liabilities under the general warranties has now expired;

7.7 An agreement dated 3 February 2003, pursuant to which the Company purchased the entire issued share capital of SLF Insurance (Services) Limited from John Bray for an initial consideration of £75,000 and deferred consideration of up to £59,750 to be determined in accordance with the terms of the agreement. Under this agreement, the vendor gave general business and tax warranties and a tax indemnity for the benefit of the Company. All amounts due under the agreement have now been paid and the warranty period under the general business warranties has now expired;

7.8 On 12 December 2003, Jelf Corporate Healthcare Limited purchased the business and assets of Pontin & Stein Partners from Wayne Pontin and Jamie Cleall Harding, under which the Company acted as guarantor for its subsidiary company. The initial consideration of £350,000 has been paid, although additional consideration up to an aggregate maximum of £525,000, is due in December 2004, 2005 and 2006, subject to the satisfaction of certain conditions and targets. The Board estimates the targets for 2004 will be met. Under this agreement, the vendors gave general warranties for the benefit of Jelf Corporate Healthcare Limited. The warranty period for general warranties expires on 1 December 2006;

7.9 On 7 January 2004, the Company made an inter group sale of the personal client list of SLF Insurance (Services) Limited to its subsidiary Jelf Insurance Brokers (Wessex) Limited for the nominal sum of £5 and the corporate client list of SLF Insurance (Services) Limited to its subsidiary Jelf Insurance Brokers Limited for a nominal amount of £5, both sums were left outstanding as an inter company loan;

7.10 A letter of engagement dated 20 May 2004 from Midicorp Corporate Finance Limited to the Company pursuant to which Midicorp Corporate Finance Limited has been appointed to act as strategic adviser to the Group. The Company has agreed to pay Midicorp Corporate Finance Limited a fee of £75,000 plus VAT disbursements, and expenses for its services and the grant of 267,402 Warrants.

## 8. WARRANTS

8.1 Conditional upon Admission, the following Warrants have been granted:

| *Name* | *Number of Warrants* | *Subscription Price* | *Expiry* |
|---|---|---|---|
| JM Finn | 133,701 | 81p | 15.10.08 |
| Daniel Stewart | 170,738 | 81p | 15.10.08 |
| Midicorp Corporate Finance Limited | 267,402 | 81p | 15.10.08 |

8.2 The principal terms of the rules of the Warrants are as follows:

8.2.1 The Warrants will be exercisable at any time from Admission until the earlier of the expiry of 4 years from the date of Admission or the winding-up of the Company ("the Subscription Period).

8.2.2 The Warrants entitle the Warrantholder to subscribe in cash for such number of shares equalling the number of warrants registered in his/her name at the Placing Price ("the Issue Price") payable in full on subscription. Ordinary Shares will be allotted within 28 days following subscription.

8.2.3 The Warrants may be exercised in part or in whole. The exercise of any subscription rights by a Warrantholder must be in respect of not less than 1,000 Ordinary Shares (unless such exercise is in respect of the balance only of a Warrantholder's subscription rights).

8.2.4 Ordinary Shares allotted shall be allotted fully paid but shall not carry the right to participate in any dividend or other distribution declared, paid or made on the Ordinary Shares by reference to a record date before the relevant subscription date but shall otherwise participate in all dividends and other distributions in respect of the then current financial period of the Company *pari passu* in all respects with the Ordinary Shares in issue on the relevant subscription date.

8.2.5 The Company will apply for the Ordinary Shares allotted pursuant to the exercise of a Warrant to be admitted to dealing on AIM and the Company will use all reasonable endeavours to obtain the grant of admission not later than 7 days after the date of allotment.

8.2.6 All or any rights attaching to the Warrants may only be altered or abrogated with the sanction of an extraordinary resolution of the Warrantholders.

8.2.7 The Issue Price may be adjusted in the event of a capitalisation issue of shares (other than dividends *in specie*) or rights issues, or any consolidation, sub-division, conversion or reduction of the Ordinary Shares or a reconstruction, amalgamation, merger, takeover or liquidation of the Company The adjustments will be made as the Company's auditors, acting as experts and not as arbitrators, shall determine and state to be fair and reasonable in all the circumstances.

8.2.8 In the event of an offer or invitation to all Shareholders (whether by rights issue, open offer or otherwise) the Company shall, or so far as it is able, procure that at the same time an appropriate offer or invitation is made to the Warrantholders or, if this is not possible, then adjustments shall be made as in 8.2.7 above.

8.2.9 if a Takeover Offer (as defined in the Warrant Instrument) is made at any time or times before the end of the Subscription Period, the Company shall give notice of the Takeover Offer to the Warrantholders and shall use its reasonable endeavours to procure that an appropriate offer is extended to the Warrantholders or, if this is not possible, then adjustments shall be made as in 8.2.7 above.

8.2.10 On the winding-up (except on a merger or reconstruction in which case, the Warrantholder will be granted a substitute warrant of equivalent value) each Warrantholder shall rank *pari passu* with the holders of Ordinary Shares and shall be entitled to receive such sum (less the aggregate Subscription Price) he would otherwise have received out of the assets available in the liquidation.

8.2.11 Save with the sanction of an extraordinary resolution of the Warrantholders or the consent in writing of the Warrantholders holding not less than three-quarters of the Warrants, the Company shall, whilst any Warrant remains outstanding:

8.2.11.1 not make any distribution of capital reserves (except by means of a capitalisation issue subject to adjustments referred to at 8.2.7 above);

8.2.11.2 not modify the rights attaching to the Ordinary Shares or create or issue any new class of equity share capital which carries rights more favourable than those attaching to the Ordinary Shares;

8.2.11.3 not convert any issued share capital or other securities into any other class of share capital;

8.2.11.4 allow Warrantholders to exercise their subscription rights, at any time whilst an offer or invitation to the Ordinary Shareholders for the purchase by the Company of any of its shares is open for acceptance;

8.2.11.5 procure that there shall be no compromise or arrangement affecting the Ordinary Shares unless the Warrantholders shall be treated as a separate class of members of the Company and shall be party to such compromise or arrangement; and

8.2.11.6 keep available sufficient authorised but unissued share capital to satisfy in full all subscription rights remaining exercisable under the Warrants, without the need for the passing of any resolution of the Company.

8.2.12 Warrants will not be transferable save in certain limited circumstances including transfers to certain relatives, family trusts or approved persons, being a partner or employee or group company of a Warrantholder.

8.2.13 Each Warrantholder will be sent, for information purposes only, concurrently with the issue of the same to the holders of Ordinary Shares a copy of each published annual report and accounts or summary financial statement of the Company.

8.2.14 A Warrantholder shall have the right to receive notice of all general meetings of the Company but shall only be entitled to attend and speak at any such general meeting where the business of the meeting includes, *inter alia*, a resolution that the Company be wound up summarily (voluntarily), to alter or abrogate the rights attached to any of the shares of the Company, to authorise, create or increase the amount of any shares ranking in priority to the Ordinary Shares the subject of the Warrants, or to do any other thing which may give rise to an adverse change or infringement of the rights of the Warrantholder.

## 9. EMI OPTIONS

9.1 The Directors and certain employees of the Group have been granted the following EMI Options which will lapse at midnight on 31 December 2004 if the Ordinary Shares in the Company have not been admitted to trading on AIM on or before that date:

| *Name* | *Number of Shares under Option* | *Exercise Price per share* | *Date of Grant* |
|---|---|---|---|
| John Harding | 50,000 | 81p | 15 October 2004 |
| Julia Sansom | 20,000 | 81p | 15 October 2004 |
| Tobin Coles | 20,000 | 81p | 15 October 2004 |
| Hazel Loftus | 5,000 | 81p | 15 October 2004 |
| Tracey Wiltshire | 5,000 | 81p | 15 October 2004 |
| Helen Allen | 5,000 | 81p | 15 October 2004 |
| Jackie Francombe | 5,000 | 81p | 15 October 2004 |

| *Name* | *Number of Shares under Option* | *Exercise Price per share* | *Date of Grant* |
|---|---|---|---|
| Louise Peacock | 5,000 | 81p | 15 October 2004 |
| Nicola Elliott | 5,000 | 81p | 15 October 2004 |
| Wendy Riley | 5,000 | 81p | 15 October 2004 |
| Geoff Wiltshire | 5,000 | 81p | 15 October 2004 |
| Jacqueline Jones | 5,000 | 81p | 15 October 2004 |
| Sian Scragg | 5,000 | 81p | 15 October 2004 |
| Nick Tanner | 5,000 | 81p | 15 October 2004 |
| Jeanne Smith | 5,000 | 81p | 15 October 2004 |

9.2 The EMI Options are granted in accordance with Chapter 9 of Part 7 and Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 and are intended to be qualifying options for the purposes of the EMI Code.

9.3 The principle terms of the EMI Options are as follows:

9.3.1 To the extent that the market value of the Ordinary Shares under the EMI Option exceed £100,000 the option shall be treated as an Inland Revenue unapproved share option on the same terms.

9.3.2 The EMI Options are not transferable if the Ordinary Shares have not been admitted to trading on AIM on or before 31 December 2004, the EMI Options will lapse at midnight on such date.

9.3.3 The EMI Options may not be exercised on or after the tenth anniversary of the date of grant;

9.3.4 Subject to the matters referred to at paragraph 9.3.7 below the Option may be exercised in the option period, being the date commencing on the second anniversary of the date of grant and expiring at 5.00 p.m. on the business day immediately preceding the tenth anniversary thereof.

9.3.5 Save in limited circumstances including without limit the event of death, disability, retirement or redundancy, an EMI Option may not be exercised after the Option holder ceases to hold office or employment with the Company or its Group.

9.3.6 In the event of the death of an option holder, the option will be exercisable by the option holder's personal representatives for a period of twelve months beginning with the date of death and shall lapse and cease to be exercisable at the end of that period.

9.3.7 An EMI Option may be exercised in whole after the second anniversary of grant subject to 9.3.10 below.

9.3.8 In addition to the above, the options may be exercised within 40 days from the change of Control (as defined in Section 840 of the Income and Corporation Taxes Act 1988) as a result of the following:

9.3.8.1 the making of a general offer to acquire the whole of the issued share capital of the Company;

9.3.8.2 the making of a general offer to acquire all the shares in the Company which are of the same class as the Shares;

9.3.8.3 obtaining all the Shares of the Company as a result of a qualifying exchange of Shares;

9.3.8.4 a court sanctioned compromise or arrangement for the purpose of a scheme of reconstruction of the Company under which an acquiring company obtains control of the Company;

9.3.8.5 if any person becomes bound or entitled to acquire shares in the Company under sections 428-430 of the Act (Takeovers).

9.3.9 The EMI Options shall immediately lapse in the following events:

9.3.9.1 transfer, assignment (other than to personal representatives of a deceased option holder) or mortgage of the option;

9.3.9.2 the option holder being adjudged bankrupt;

9.3.9.3 the Option holder ceasing to be an eligible employee;

9.3.9.4 the fortieth day after an event which cause the EMI Option to cease to qualify under chapter 9 of Part 7 of the Income Tax (Earnings and Pensions) Act 2003;

9.3.9.5 as referred to in any target to which the exercise of the EMI Option is conditional; or

9.3.9.6 at the expiry of the option period as referred to above.

9.3.10 The exercise of the EMI Option (or any part thereof) may be conditional upon the obtainment of an objective performance target. The terms of the target shall be determined by the Directors in their absolute discretion. Failure to achieve the targets within specified time limits will result in the lapse of the EMI Option.

9.3.11 The option price may be adjusted in the event of a capitalisation issue or upon consolidation, sub-division or reduction of the Company's share capital, or a demerger or a declaration of special dividend or any event which may affect the value of the option. The adjustments will take place by adjusting (rounded down to the nearest whole number) the number of option shares and rounding up the option price and/or if the option has been exercised, in respect of those shares not yet allotted, adjustment to the number of shares to be allotted, so as to ensure that the value of the option is not increased or decreased. The option price may not be reduced below its nominal value.

9.3.12 The option holder will bear the cost of any taxation liability (including) employers national insurance contributions payable in respect of the exercise of the option.

9.3.13 Ordinary shares issued pursuant to the exercise of options will rank equally with the Ordinary Shares in issue on the date of such allotment, save as regards any rights attaching to such shares by reference to a record date prior to the date of allotment.

## 10. MEMORANDUM AND ARTICLES OF ASSOCIATION

### (a) The Memorandum of Association

The Company's primary object is that of a general trading company.

### (b) The Articles of Association

The articles of association contain, *inter alia*, provisions to the effect set out below:

(i) *Dividends*

Subject to special rights attaching to any shares, the holders of the Ordinary Shares are entitled, *pari passu* amongst themselves, to the profits of the Company available for distribution and resolved to be distributed in proportion to the amounts paid up on the Ordinary Shares held by them. The Company in general meeting may from time to time declare dividends but no such dividend shall be payable otherwise than out of the profits of the Company available for the purpose in accordance with the statutes provided that no dividend shall be declared in excess of the amount recommended by the Directors. The Directors may pay interim dividends and fix half yearly dividends. No dividends payable in respect of any Ordinary Share shall bear interest unless otherwise provided by the rights attached to the share. The Directors may, with the prior sanction of an ordinary resolution of the Company, give the holders of the Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid, instead of cash in respect of all or part of such dividends. Subject to the Act the Directors may deduct from any dividend or other moneys payable in respect of any shares all such sums of money (if any) as may be due and payable by him either alone or jointly with any other person to the Company on account of calls made but unpaid or otherwise in respect of shares of the Company.

The Company may cease to send any cheque or warrant through the post for any dividend payable on any shares in the Company which is normally paid in that manner on those shares if in respect of at least two consecutive dividends payable on those shares the cheques or warrants have been returned undelivered or remain uncashed. All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and all dividends unclaimed for a period of 12 years after having been declared shall be forfeited and shall revert to the Company. The Directors may, subject to the provisions of the Articles relating to disclosure of interests, decline to pay a dividend in respect of shares which are the subject of a notice under Section 212 of the Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class in respect of which the required information has not been received by the Company within 14 days of such the notice.

(ii) *Return of capital*

On a winding-up of the Company the liquidator may, with the authority of an extraordinary resolution of the Company, divide among the members *in specie* the whole or any part of the assets of the Company.

*(iii) Voting*

Subject to the restrictions referred to in paragraph (iv) below and subject to any special rights or restrictions as to voting attached to any class of shares, on a show of hands every holder of Ordinary Shares who is present in person or (being a corporation) is present by a duly authorised representative shall have one vote and on a poll every such holder who is present in person or by proxy shall have one vote for each ordinary share held by him.

(iv) *Restrictions on voting*

A member of the Company shall not be entitled, in respect of any Ordinary Share held by him, to vote (either personally or by proxy) at any general meeting of the Company unless all amounts payable by him in respect of that Ordinary Share in the Company have been paid.

A member of the Company shall not, if the Directors so determine, be entitled to attend or vote, or to exercise his rights as a member at any general meeting, if he or any other person appearing to be interested in such Ordinary Shares has failed to comply with a notice given under section 212 of the Act within 14 days from the date of service of such notice. The restrictions will continue until the information required by the notice is supplied to the Company or until the Ordinary Shares in question are transferred or sold in the circumstances set out in the Articles.

(v) *Untraced shareholders*

The Company may arrange for the sale and sell as agent for the relevant member any Ordinary Share (including any further shares issued in respect of that share) if, for a period of 12 years no cheque or warrant payable in respect of the share has been cashed and no communication in respect of the ordinary share has been received by the Company from the relevant member (or other person entitled to the Ordinary Share). The Company must advertise its intention to sell such Ordinary Share in both a national daily newspaper published in the United Kingdom and in a newspaper circulating in the area of the last known address to which cheques or warrants were sent.

Notices of the intention to sell must also be given to the London Stock Exchange if shares of the class concerned are listed on that exchange or any secondary market of the exchange. If no communication in respect of the Ordinary Share is received within a further three months the

Company may sell the ordinary share by instructing a member of the London Stock Exchange to sell it. The Company shall be indebted to the former member or other person previously entitled to the relevant ordinary share for an amount equal to the net proceeds of sale, but no trust shall be created in respect thereof and no interest shall be payable in respect of such sum.

(vi) *Variation of rights*

Subject to the Act and every statute affecting the Company, any rights attaching to any class of share in the Company may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued share of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the relevant class. The creation or issue of shares of a particular class ranking *pari passu* with the existing shares shall not, unless otherwise provided be deemed to be a variation of the rights attaching to the existing class of share. The quorum for any such separate general meeting shall be two persons at least holding, or represented by proxy, not less than one third in nominal value of the issued shares of the relevant class.

(vii) *Transfer of Shares*

All transfers of shares must be effected by written instrument in any usual form or in any other form acceptable to the Directors and must be executed by or on behalf of the transferor and (in the case of a partly paid share) the transferee. The directors may decline to recognise any instrument of transfer unless:

(i) the instrument of transfer is duly stamped and deposited at the offices of the Registrars of the Company accompanied by the certificate for the shares to be transferred and such other evidence as the Directors may reasonably require to prove the title of the intended transferor;

(ii) the instrument of transfer is in respect of only one class of share;

(iii) the instrument of transfer is in favour of not more than four transferees;

(iv) the instrument of transfer is in respect of a share in respect of which all sums presently payable to the Company have been paid.

If the Directors refuse to register a transfer of any shares they must provide the transferor and transferee with a notice of the refusal within two months after the date on which the transfer was lodged with the Company. The Directors may, subject to the provisions of the Articles relating to disclosure of interests, decline to register a transfer in respect of shares which are the subject of a notice under Section 212 of the Act and which represents 0.25 per cent. or more in nominal value of the issued shares of their class and in respect of which the required information has not been received by the Company within 14 days of such notice. There are no pre-emption rights on transfer attaching to the Ordinary Shares.

(viii) *Alteration of capital and purchase of own shares*

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person. The Company may by special resolution, subject to the provisions of the Act, reduce its share capital, any capital redemption reserve fund or any share premium account in any manner. The Company may by special resolution create and sanction the issue of share capital which is, or at the option of the Company or the holder is to be liable, to be redeemed, subject to and in accordance with the provisions of the Act.

(ix) *Directors*

Minimum and maximum number

Unless altered by ordinary resolution of the Company, the number of Directors shall not be less than two nor more than eight.

(x) *Fees to Directors*

The fees paid to the Directors for their services in the office of Director shall not exceed in aggregate £100,000 per annum or such higher amount as may be determined by ordinary resolution of the Company. Subject to this limit, each Director shall be paid a fee (which shall be deemed to accrue from day to day) at such rate as may from time to time be determined by the Directors. Any such fee shall be in addition to any remuneration payable to a Director as the Board may in its discretion determine by reason of his appointment to any executive office be for the performance of services which, in the opinion of the Directors, go beyond the ordinary duties of a Director.

(xi) *Appointment, retirement and shareholding qualification*

At each annual general meeting of the Company, one-third of the Directors (or, if their number is not three or a multiple of three, the number nearest to but not more than one-third) shall retire from office by rotation. A person shall be capable of being appointed a Director after he has attained the age of 70 provided that he shall retire at the first annual general meeting after the date of his seventieth birthday where he shall then be eligible for re-election for the period from that annual general meeting until the end of the next following annual general meeting when again he shall retire. A director shall not be required to hold any shares in the Company.

(xii) *Directors' interests*

Save as provided in the articles, a Director shall not vote or be counted in a quorum at a meeting in relation to any resolution concerning any contract, arrangement, transaction or proposal in which he is to his knowledge directly or indirectly materially interested (including by virtue of the persons connected with him within the meaning of section 346 of the Act). The prohibition will not apply to any of the following:

(i) any arrangement for giving him any guarantee, security or indemnity in respect of money lent or obligations undertaken by him for the benefit of the Company (or any of its subsidiaries or subsidiary undertakings); or

(ii) any arrangement for giving any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company (or any of its subsidiaries or subsidiary undertakings) for which he has assumed responsibility, in whole or in part, under a guarantee or an indemnity or by the giving of security; or

(iii) any proposal concerning any placing of shares or debentures or other securities of or by the Company (or any of its subsidiaries or subsidiary undertakings) in which placing he is or may be entitled to participate as a holder of shares, debentures or other securities or in the underwriting or sub-underwriting of which he is to participate; or

(iv) any proposal concerning any other body corporate in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise, provided that he (together with persons connected with him within the meaning of Section 346 of the Act) does not have an interest (as that term is used in Part VI of the Act) in one per cent. or more of the issued equity share capital or any class of such body corporate (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed for this purpose to be a material interest in all circumstances); or

(v) any contract arrangement or proposal for the benefit of employees of the Group under which the Director benefits in a similar manner as the employees or which does not accord to any Director as such any privilege or benefit not accorded to the employees to which the scheme or fund relates; or

(vi) any proposal concerning any insurance which the Company proposes to maintain or purchase for the benefit of persons who include Directors.

(xiii) *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Directors shall restrict the borrowing of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to any subsidiary undertakings so as to secure (so far, as regards subsidiaries and subsidiary undertakings, as by such exercise they can secure) that the aggregate amount at any one time outstanding in respect of all money borrowed by the Company and/or any of its subsidiaries or subsidiary undertakings (other than intra-Group borrowing) shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to the greater of (i) four times the aggregate of the nominal amount of the share capital issued and paid up, as shown in the audited balance sheet of the Company last laid before the Company in general meeting, and the amounts shown as standing to the credit of capital and revenue reserves in either a consolidation of the audited balance sheets of all the companies in the Group last laid before the members thereof in general meeting or in the audited consolidated balance sheet of the Group last laid before the Company in general meeting or (ii) the sum of £10,000,000.

(xiv) *CREST*

The Directors may implement such arrangements as they think fit in order for any class of shares held in uncertificated form and for the title to those shares to be transferred by means of a system such as CREST in accordance with the Uncertificated Securities Regulations 2001 (as amended from time to time). The Company will not be required to issue a certificate to any person holding such shares in uncertificated form.

## 11. LITIGATION

No member of the Group has engaged in, nor is currently engaged in any legal or arbitration proceedings which may have or have had during the twelve months preceding the date of this document a significant effect on its financial position, nor so far as the Directors are aware, are any such proceedings pending or threatened against or being brought by any member of the Group.

## 12. WORKING CAPITAL

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

## 13. UNITED KINGDOM TAXATION

13.1 The following paragraphs are intended as a general guide only for shareholders who are resident and ordinarily resident in the UK for tax purposes, holding Placing Shares as investments and not as securities to be realised in the course of a trade. They do not purport to be comprehensive nor to describe all potential relevant considerations. They are based on current legislation and UK Inland Revenue practice. Any shareholder who is any doubt about his tax position or who is subject to taxation in a jurisdiction other than the UK, should consult his or her own professional adviser immediately.

### 13.2 UK tax on capital gains

If a shareholder disposes of all or some of his Placing Shares, a liability to tax on chargeable gains may arise, depending on the shareholder's circumstances and available exemptions and reliefs.

Taper relief is available to individual and trustee shareholders as well as, personal representatives, in respect of their shares in the Company. The relief reduces the capital gain that is taxable on the shareholders on a subsequent sale of the shares. The amount of relief depends on whether the shares are "business assets" for taper relief purposes and how long the shares are held before their disposal.

If a "business asset" is sold more than two years after its acquisition then 75 per cent. of the capital gain, before annual exemption, is exempt from capital gains tax. This reduces the effective capital gains tax rate on the sale for a higher rate individual taxpayer from 40 per cent. to 10 per cent. If an asset is not a "business asset" for taper relief purposes then the amount of exemption from capital gains tax is lower, with up to 40 per cent. of the capital gain being exempt from capital gains tax after a period of ten years.

A "business asset" for taper relief purposes includes unlisted shares in a holding company of a trading group. Shares traded on the AIM are treated as unlisted for these purposes. A trading group consists of a group of companies whose activities, taken together, do not include to a substantial extent activities other than trading activities.

The Company and its trading subsidiaries comprise a trading group and, as such, the Ordinary Shares should satisfy the definition of a business asset for taper relief purposes. Neither the Company nor the Directors, however, makes any warranty or give any undertaking that business asset taper relief will be available in respect the Ordinary Shares, nor do they warrant or undertake that the Ordinary Shares will continue to qualify as business assets for taper relief purposes.

13.3 **UK Stamp duty and duty reserve tax**

No stamp duty or stamp duty reserve tax ("SDRT") will generally be payable on the issue of the Placing Shares.

Any subsequent transfer of Placing Shares will generally be subject to UK stamp duty or stamp duty reserve tax at the rate of 0.5 per cent. of the amount or value of the consideration given. An unconditional agreement to subsequently transfer Placing Shares will generally be subject to SDRT at 0.5 per cent. of the amount or value of the agreed consideration.

13.4 **UK Taxation of Dividends**

Individual shareholders whose income is within the lower or basic rate bands are liable to tax at 10 per cent. on their gross dividend income. Individual shareholders resident for tax purposes in the UK are entitled to a non-refundable tax credit of an amount equal to 10 per cent. of the aggregate of the dividend and the tax credit. The effect of this is that the tax credit attaching to the dividend will satisfy the income tax liability on UK dividends of an individual shareholder whose income is within the lower or basic rate bands. Shareholders liable to higher rate tax are liable to tax at 32.5 per cent. on their gross dividend income (dividend received plus tax credit) and, taking into account the 10 per cent. tax credit, will have further tax to pay equal to 25 per cent. of the net dividend received (22.5 per cent. of the gross dividend).

A corporate shareholder resident for tax purposes in the UK will generally not be liable for UK corporation tax on any dividend received from the Company.

UK resident trustees of discretionary or accumulation trusts are liable to income tax on UK company dividends at 32.5 per cent. of the gross dividend. After taking into account the 10 per cent. tax credit, the trustees will be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend.

13.5 **Inheritance Tax (IHT) Business Property Relief**

Relief from inheritance tax is available on assets that qualify as "business property" as long as the asset has been owned for a minimum period of two years. 100 per cent. relief is available on all unquoted shares in a trading group. Shares traded on the Alternative Investment Market are treated as unquoted for these purposes.

Relief from IHT is restricted where the company or group's assets include assets that have not been used for the purpose of the business in the last two years nor required for the future use of the business.

The Company and its trading subsidiaries comprise a trading group and, as such, the Placing Shares should be eligible for IHT business property relief subject to the minimum ownership requirement. Neither the Company nor the Directors, however, makes any warranty or gives any undertaking that IHT business property relief will be available in respect of any investment in the Placing Shares pursuant to this document, nor do they warrant or undertake that the Company Shares will continue to qualify for IHT business property relief purposes.

**14. EIS TAX RELIEF**

14.1 **Enterprise Investment Scheme ("EIS") and Venture Capital Trusts ("VCT")**

Confirmation that the placing shares are qualifying shares for the purposes of the EIS and VCT legislation has been obtained from the Inland Revenue.

The advance confirmation which in accordance with customary Inland Revenue practice relates to the qualifying status of the Company only, has been obtained on the basis of the facts supplied.

Whilst the Company cannot guarantee to conduct its activities in such a way as to remain a qualifying VCT or EIS investment, the directors intend, as far as possible, to do so.

**Any person who is in any doubt as to his taxation position should consult an appropriate professional adviser without delay.**

**15. GENERAL**

15.1 The aggregate expenses of the Placing and Admission, including commissions of £112,500 are estimated at £400,000 exclusive of VAT) all of which are payable by the Company.

15.2 The total proceeds expected to be raised by the Placing are £2.5 million. The estimated net proceeds accruing to the Company from the Placing after deduction of estimated expenses are £2.1 million (excluding VAT).

15.3 Except as stated in this document, there are no significant investments in progress by the Group.

15.4 Except as stated in this document, no exceptional factors have influenced the Group's activities.

15.5 Except as stated in this document, the Group is not dependant on any intellectual property rights, licences or particular contracts, where any of these are of fundamental importance to the Group's business.

15.6 Horwath Clark Whitehill LLP, have given and not withdrawn their consent to the issue of this document with the inclusion in it of their report and letter and references to their name in the form and context in which they respectively appear.

15.7 With reference to regulation 45(1)(b)(iii) of Schedule 1 of the POS Regulations, Horwath Clark Whitehill LLP accept responsibility in relation to this document for their report set out in Part II of this document.

15.8 Daniel Stewart & Company Plc has given and not withdrawn its written consent to the issue of this document with the inclusion in it of its name and references to its name in the form and context in which it appears.

15.9 JM Finn & Co has given and not withdrawn its written consent to the issue of this document with the inclusion in it of its name and references to its name in the form and context in which it appears.

15.10 Except as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 30 April 2004, the date to which the latest financial statements were made up.

15.11 No person (other than professional advisers referred to in this document, BPE Solicitors of St James's House, St James' Square, Cheltenham GL50 3PR and trade suppliers) has received, directly or indirectly, from the Company within 12 months preceding the Company's application for Admission or has entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more, calculated by reference to the Placing Price, or any other benefit with a value of £10,000 or more at the date of Admission.

15.12 The Placing Price of 81 pence per Placing Share is at a premium of 80 pence for each Placing Share above the nominal value of each Placing Share.

15.13 The financial information relating to the Company contained in this document does not comprise statutory accounts for the purposes of section 240 of the Act.

15.14 The accounting reference date of the Company is 30 September.

15.15 There is no Director or member of a Director's family who has a related financial product referenced to the Ordinary Shares.

15.16 Monies received from applicants pursuant to the Placing will be held in accordance with the terms and conditions of the Placing until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 4 November 2004, application monies will be returned to the Placees at their risk without interest.

15.17 Share Certificates representing the Placing Shares are expected to be despatched to holders by post at their risk within five business days of the Placing, temporary documents of title will not be issued in connection with the Placing.

15.18 The Directors have applied for the Ordinary Shares (issued and to be issued) to be admitted to CREST with effect from Admission. Accordingly, it is expected that the Ordinary Shares (issued and to be issued) will be enabled for settlement in CREST following Admission. Placees who are system members (as defined in the CREST Regulations) may elect to have the Placing Shares allocated to them in uncertificated form through CREST.

Dated: 15 October 2004.

Jelf Group plc

Fromeforde House
Church Road
Yate
Bristol
BS37 5JB
Tel: 01454 272727 Fax: 01454 272728
www.jelfgroup.com