

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. The whole of the text of this document should be read. You should be aware that an investment in the Company involves a high degree of risk. Prospective investors should also carefully consider the section entitled "Risk Factors" in Part II of this document before taking any action.**

This document (which has been drawn up in accordance with the requirements of the AIM Rules) comprises an admission document for the purposes of the AIM Rules. It does not comprise a prospectus within the meaning of section 85 of the Financial Services and Markets Act 2000 and has not been drawn up in accordance with the Prospectus Rules or approved by the Financial Services Authority. This document contains no offer to the public within the meaning of the FSMA, the Act or otherwise.

Freeplay Energy plc and the Directors and Proposed Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of Freeplay Energy plc, the Directors and the Proposed 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.

The Existing Ordinary Shares are admitted to trading on AIM. If the Acquisition is approved by the holders of Existing Ordinary Shares at the EGM, it is expected that the dealing facility for the Existing Ordinary Shares will be cancelled with effect from 8.00 a.m. on 20 July 2006. Application will be made for the Existing Ordinary Shares to be re-admitted and the Placing Shares and the Consideration Shares to be admitted to trading on AIM. It is expected that Admission will take place and dealings will commence in the Enlarged Issued Share Capital at 8.00 a.m. on 20 July 2006.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those of the Official List of the UK Listing Authority. London Stock Exchange plc has not itself examined or approved the contents of this document. The Ordinary Shares are not dealt in on any other recognised investment exchange and no applications for such dealings have been made. It is emphasised that no application is being made for admission of these securities to the Official List of the UK Listing Authority.

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# **FREEPLAY ENERGY PLC**

*(incorporated and registered in England and Wales under the Companies Act 1985 with registered number 4220065)*

## **Placing of 11,397,358 Ordinary Shares of 5p each at 29p per share Proposed acquisition of BMGI Group Re-admission to trading on AIM Notice of Extraordinary General Meeting**

*Nominated Adviser and Broker*

**Charles Stanley Securities**

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### **Share capital immediately following Admission**

<i>Authorised</i>		<i>Issued</i>	
<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
100,000,000	5,000,000.00	Ordinary Shares of 5p each	49,801,868 2,490,093.40
4,110,650	1,849,792.50	Deferred Shares of 45p each	1,730,098 778,544.10

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The New Ordinary Shares will, on Admission, rank *pari passu* in all respects with the existing Ordinary Shares then in issue and will rank in full for all dividends and other distributions declared, paid or made in respect of the Ordinary Shares after Admission.

In accordance with the AIM Rules, Charles Stanley Securities, a trading division of Charles Stanley & Co. Limited ("Charles Stanley"), has confirmed to London Stock Exchange Plc that it has satisfied itself that the Directors and Proposed Directors have received independent advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, to the best of its information and belief having made due and careful enquiry, all relevant requirements of the AIM Rules have been complied with. In giving its confirmation to London Stock Exchange Plc, no liability whatsoever is accepted by Charles Stanley for the accuracy of any information or opinions contained in this document or for the omission of any material information.

Charles Stanley, which is regulated by the Financial Services Authority, is acting as Nominated Adviser and Broker for the Company, and no one else in relation to the Placing and will not be responsible to any other person other than the Company for providing the protection afforded to its customers or for advising any other person on the contents of this document or any transaction or arrangement referred to herein. No action has been taken or will be taken in any jurisdiction by either the Company or Charles Stanley that would permit a public offer of Ordinary Shares in any such jurisdiction where action for that purpose is required, nor has any such action been taken with respect to the possession or distribution of this document. Persons into whose possession this document comes are required by the Company and Charles Stanley to inform themselves about and to observe any restriction as to the Placing and the distribution of this document.

The Ordinary Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended, or under securities legislation of any state of the United States of America, Canada, Japan, the Republic of South Africa or the Republic of Ireland. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States of America, Canada, Japan, the Republic of South Africa or the Republic of Ireland or to or for the account or benefit of any national, resident or citizen of the United States of America, Canada, Japan, the Republic of South Africa or the Republic of Ireland or any person located in the United States of America. The distribution of this document in jurisdictions other than the UK may be restricted by the laws of those jurisdictions and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This document does not constitute an offer, or the solicitation of an offer, to subscribe or buy any of the Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Notice of an Extraordinary General Meeting of the Company to be held at the offices of Edwin Coe, 2 Stone Buildings, Lincoln's Inn, London, WC2A 3TH at 11.00 a.m. on 17 July 2006 is set out at the end of this document. A Form of Proxy for use at the EGM accompanies this document and, to be valid, must be completed and returned to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Kent, BR3 4TU, as soon as possible but in any event to be received not later than 11.00 a.m. on 15 July 2006 or 48 hours before any adjourned meeting. Completion of a Form of Proxy will not preclude a Shareholder from attending and voting at the EGM in person.

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## DIRECTORS, SECRETARY AND ADVISERS

**Directors:** Roderick Morton Stear (*Chairman and Chief Executive Officer*)  
Richard Austin Court (*Finance Director*)  
John Hutchinson (*Technology Director*)  
Rt Hon Baroness Lynda Chalker of Wallasey (*Non-executive Director*)  
Leonard J. Fassler (*Non-executive Director*)  
Thomas Gordon Roddick (*Non-executive Director*)  
Andy Polansky (*Non-executive Director*)

All of whose business address is at

3rd Floor, 56-58 Conduit Street, London W1S 2YZ  
Telephone Number: 020 7851 2600

**Proposed Directors:** Peter Porteous (*Proposed Chief Executive Officer*)  
Harold Reiter (*Proposed Non-executive Deputy Chairman*)  
Edward Barrett (*Proposed Non-executive Director*)  
William Barrett (*Proposed Non-executive Director*)  
Stuart Kinney (*Proposed Non-executive Director*)

**Company Secretary:** Russel Shear

**Registered Office:** 2 Stone Buildings  
Lincolns Inn  
London WC2A 3TH

**Nominated Adviser  
and Broker:** Charles Stanley Securities  
25 Luke Street  
London EC2A 4AR

**Auditors:** PricewaterhouseCoopers LLP  
First Point  
Buckingham Gate  
Gatwick RH6 0PP

**Reporting Accountants:** Baker Tilly  
Brazennose House  
Lincoln Square  
Manchester M2 5BL

**Solicitors to the Company:** Edwin Coe  
2 Stone Buildings  
Lincolns Inn  
London WC2A 3TH

**Solicitors to the  
Nominated Adviser:** Hunton & Williams  
30 St Mary Axe  
London EC3A 8EP

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

**Financial Public Relations:** Weber Shandwick | Square Mile  
Fox Court,  
14 Gray's Inn Road  
London WC1X 8WS

## KEY INFORMATION

*The following summary of key information should be read in conjunction with the full text of this document from which it is derived. Attention is drawn, in particular, to the section headed "Risk Factors" set out in Part II of this document.*

- The Company has agreed, subject *inter alia* to Shareholder approval, to acquire the entire issued share capital of BMGI. Dixie is a wholly owned subsidiary of BMGI.
- Dixie is an established sales, marketing, distribution and customer service provider based in Greensboro, North Carolina, USA. Dixie provides a full range of services to its customers and suppliers, which includes customer and supplier account management, customer and supplier logistics, consumer call centre services and technical services such as training and education to customers. In addition, Dixie has recently introduced electronic ordering and e-commerce tools.
- As at 23 April 2006, Freeplay's total sales book, including product shipped, orders received and placed on the factory and orders received and not yet placed on the factory, pending release of funds, was approximately US\$5.4 million for the financial year to date.
- The Acquisition is classified as a reverse takeover for the purposes of the AIM Rules because of the size of Dixie in relation to the existing size of the Company. As a result of this, the Directors requested that the Ordinary Shares be suspended from trading on 18 May 2006.
- The Acquisition, as a result of being a reverse takeover, is conditional upon the approval of Shareholders at the EGM.
- The Company is also pleased to announce that it proposes to raise up to approximately £2.54 million (net of expenses) by the issue of up to 11,397,358 new Ordinary Shares at 29 pence each by way of a Placing 11,067,358 new Ordinary Shares have been placed conditionally with institutional and other investors by Charles Stanley and 330,000 new Ordinary Shares have been placed with certain Directors by the Company.
- The net proceeds of the Placing will be used to fund the working capital and investment needs of the Enlarged Group and to augment its working capital.

## DEFINITIONS

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

“Act”	the Companies Act 1985, as amended
“Acquisition”	the proposed acquisition of the entire issued share capital of BMGI
“Acquisition Agreement”	the conditional sale and purchase agreement dated 17 May 2006 relating to the Acquisition, further details of which are set out in paragraph 3 of Part I and paragraph 7.1(b) of Part VII of this document
“Admission”	admission of the issued and to be issued Ordinary Shares (including the Placing Shares and the Consideration Shares) to trading on AIM and such Admission becoming effective in accordance with the AIM Rules
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the rules for AIM companies and their nominated advisers as issued by the London Stock Exchange, as amended from time to time
“Articles”	the articles of association of the Company
“Barrett Corporation”	a company incorporated in Canada in which certain of the Proposed Directors are shareholders
“BDS”	Barrett Dixie Sales, Inc. a company incorporated in North Carolina, US and a wholly owned subsidiary of BMGI
“BMG” or “Vendor”	Barrett Marketing Group Ltd., a company incorporated in Canada and a wholly owned subsidiary of Barrett Corporation
“BMGI”	Barrett Marketing Group Inc., a company incorporated in Maine, US, which owns BDS
“BMGI Group”	BMGI and its subsidiary undertakings
“Board” or “Directors”	the directors of the Company whose names are set out on page 3 of this document
“Charles Stanley”	Charles Stanley Securities, a trading division of Charles Stanley & Co. Limited, which is regulated for the conduct of investment business in the UK by the Financial Services Authority and is a member of the London Stock Exchange, the Company’s Nominated Adviser and Broker
“City Code” or “Code”	The City Code on Takeovers and Mergers issued by the Panel
“Consideration Shares”	17,559,131 new Ordinary Shares to be issued to the Vendor pursuant to the Acquisition Agreement
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo is the operator (as defined in the CREST Regulations)
“CRESTCo”	CRESTCo Limited

“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended
“Deferred Shares”	the deferred shares of 45p each in the capital of the Company having the rights set out in the Articles
“Dixie”	Dixie Sales Company Inc., a company incorporated in North Carolina, US and a wholly owned subsidiary of BDS
“Enlarged Group”	the Group as enlarged by the Acquisition
“Enlarged Issued Ordinary Share Capital”	the issued Ordinary Shares in the capital of the Company following Admission comprising the existing issued Ordinary Shares, the Consideration Shares and the Placing Shares
“EGM”	the extraordinary general meeting of the Shareholders convened for 11.00 a.m. on 17 July 2006 at which Shareholders will be asked to consider the resolutions necessary to approve and implement the Proposals
“Enlarged Issued Share Capital”	the issued share capital of the Company following Admission, comprising the existing issued Ordinary Shares, the Consideration Shares, the Placing Shares and the Deferred Shares.
“Equity Securities”	shares and rights to subscribe for shares, and rights to convert securities into shares
“Existing Ordinary Shares”	the issued Ordinary Shares at the date of this document.
“Fill Rate”	per cent. of goods with sufficient on hand inventory to complete an order requirement in its entirety at the time the order is received
“Freeplay” or the “Company” or the “Group”	Freeplay Energy plc and its subsidiaries as the context requires
“Freeplay Foundation” or the “Foundation”	the registered charity and non-profit organisations established by Freeplay in the UK (registered number 1106340), the Republic of South Africa and the US
“FSMA”	the Financial Services and Markets Act 2000, as amended
“London Stock Exchange”	London Stock Exchange plc
“Mower MD”	Mower MD South East, Inc a company incorporated in Delaware, USA a joint venture in which Dixie has a 50 per cent. interest
“MIT”	Massachusetts Institute of Technology
“Net Asset Value”	the net asset value of the Group
“New Ordinary Shares”	the 11,397,358 new Ordinary Shares to be issued pursuant to the Placing and the 124,137 new Ordinary Shares to be issued to the Non-executive Directors
“North America”	the US and Canada
“OEM”	original equipment manufacturers

“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 5p each in the capital of the Company
“Panel”	the Panel on Takeovers and Mergers
“Placing”	the conditional placing by Charles Stanley, as agent for the Company, of 11,067,358 new Ordinary Shares at the Placing Price pursuant to the Placing Agreement as described in paragraph 7.1(a) of Part VII of this document and the placing of 330,000 new Ordinary Shares at the Placing Price by the Company with certain Directors as described in paragraphs 7.1(r) and (s) in Part VII of this document
“Placing Agreement”	the agreement relating to the Placing between the Company (1), the Directors (2), the Proposed Directors (3), Charles Stanley (4), BMG (5) and Wild Investments Limited (6) further details of which are set out in paragraph 7.1(a) of Part VII of this document
“Placing Price”	29 pence per Ordinary Share
“Placing Shares”	the New Ordinary Shares
“Prospectus Rules”	the prospectus rules made by the Financial Services Authority pursuant to section 73A of the FSMA
“Proposals”	the Placing, the Acquisition, Admission and other matters contemplated in this document
“Proposed Directors”	Peter Porteous, Harold Reiter, William Barrett, Edward Barrett and Stuart Kinney
“Resolutions”	the resolutions contained in the notice convening the EGM which is set out at the end of this document
“RPI”	General Index of Retail Prices published by the Office for National Statistics
“Shareholders”	holders of Ordinary Shares
“Share Option Scheme” or “Scheme”	the Group’s employee share option scheme details of which are set out in paragraph 9 of Part VII of this document
“SKU”	Stock Keeping Unit which defines a unique product offering
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“ZAR”	South African Rand, the official currency of the Republic of South Africa

## PLACING STATISTICS

Placing Price	29 pence
Number of Ordinary Shares in issue prior to the Placing	20,721,242
Number of Placing Shares	11,397,358
Number of Consideration Shares	17,559,131
Number of Ordinary Shares issued to Non-executive Directors	124,137
Number of Ordinary Shares in issue immediately following Admission	49,801,868
Percentage of Enlarged Issued Ordinary Share Capital the subject of the Placing	22.89 per cent.
Market capitalisation of the Company following Admission at the Placing Price	£14.44 million
Gross proceeds of the Placing	£3.3 million
Net proceeds of the Placing	£2.54 million

## EXPECTED TIMETABLE

Latest time and date for receipt of Form of Proxy	11.00 a.m. on 15 July 2006
Extraordinary General Meeting	11.00 a.m. on 17 July 2006
Completion of the Acquisition, Admission and dealings commence in Enlarged Issued Ordinary Share Capital on AIM	8.00 a.m. on 20 July 2006
CREST accounts credited by	20 July 2006
Definitive share certificates despatched	28 July 2006

## PART I

### LETTER FROM THE CHAIRMAN

*Freeplay Energy plc (Incorporated in England under the Companies Act 1985 with Registered No: 4220065)*

*Directors:*

Roderick Morton Stear (*Chairman and Chief Executive Officer*)  
Richard Austin Court (*Finance Director*)  
John Hutchinson (*Technology Director*)  
Rt Hon Baroness Lynda Chalker of Wallasey (*Non-executive Director*)  
Leonard J. Fassler (*Non-executive Director*)  
Thomas Gordon Roddick (*Non-executive Director*)  
Andy Polansky (*Non-executive Director*)

*Registered Office:*

2 Stone Buildings  
Lincolns Inn  
London  
WC2A 3TH

*Proposed Directors*

Peter Porteous (*Chief Executive Officer*)  
Harold Reiter (*Non-executive Deputy Chairman*)  
William Barrett (*Non-executive Director*)  
Edward Barrett (*Non-executive Director*)  
Stuart Kinney (*Non-executive Director*)

23 June 2006

*To Shareholders and, for information only, to holders of Deferred Shares, and options under the Scheme*

Dear Shareholder

**Placing of 11,397,358 Ordinary Shares of 5p each at 29p per share  
Proposed Acquisition of BMGI Group  
Re-admission to trading on AIM  
Notice of Extraordinary General Meeting**

#### 1. INTRODUCTION

It was announced on 18 May 2006 that the Company has agreed, subject *inter alia* to Shareholder approval, to acquire the entire issued share capital of BMGI. Dixie, a wholly owned subsidiary of BMGI, is a well established brand building, marketing, sales, order management and parts and wholesale distribution company based in North Carolina, USA.

The Acquisition is classified as a reverse takeover for the purposes of the AIM Rules because of the size of Dixie in relation to the existing size of the Company. As a result of this, the Directors requested that the Ordinary Shares be suspended from trading on 18 May 2006, pending publication of this document, which contains details of the Proposals. The Acquisition, as a result of being a reverse takeover, is conditional upon the approval of Shareholders at the EGM.

The Company is also pleased to announce that, subject *inter alia* to Shareholder approval, it proposes to raise up to approximately £2.54 million (net of expenses) by the issue of up to 11,397,358 new Ordinary Shares at 29 pence each by way of a Placing. 11,067,358 new Ordinary Shares have been conditionally placed with institutional and other investors by Charles Stanley and 330,000 new Ordinary Shares have been placed with certain Directors by the Company.

The net proceeds of the Placing will be used to fund the working capital and investment needs of the Enlarged Group and to augment its working capital.

The Acquisition, if approved by Shareholders, will result in the Barrett Corporation (through its wholly owned subsidiary Barrett Marketing Group Ltd) holding 35.26 per cent. of the Enlarged Issued Ordinary Share Capital.

The purpose of this document is to set out the background to and reasons for the Proposals and to explain why the Board considers them to be in the best interests of the Company and Shareholders as a whole. An EGM has been convened for 11.00 a.m. on 17 July 2006, at which Shareholders will be asked to consider the Resolutions necessary to approve and implement the Proposals. A notice of EGM is set out at the end of this document.

## **2. REASONS FOR THE ACQUISITION**

Freeplay has a proven track record in the development of self-powered energy products and has a portfolio of self-powered products and an expanding international distribution base. The Board's strategy is to develop Freeplay into a broad based sustainable energy company. This strategy will be accomplished through the establishment of its own self-powered products in the market and the formation of strategic alliances or acquisitions with partners to develop, manufacture and supply sustainable energy products.

The Board believes that distribution strength will be a key area in ensuring the success of the Group and that, in particular, North America will be a key market for the distribution of the Group's existing products and other future sustainable energy products. In addition, the Board believes that the North American market will be key to Freeplay's commercial and financial success.

In 2005, after a review of the Group's North American distribution, Freeplay entered into an agreement with Dixie to distribute Freeplay's products in North America. Dixie has been successful in securing some major listings of Freeplay's products with large North American retailers, including Target Corp who will be rolling out the Kito flashlight in 200 stores, Macys Midwest who will be rolling out 3 SKU's into 86 US stores; Sharper Image who have listed the EyeMax radio across their stores and their website and REI, a leading US sporting goods retailer.

Dixie is a North American focussed distribution company, which includes a call centre, multi-location warehouses and a strong management team. The Acquisition will provide the Enlarged Group with strong formal relationships with many US retailers and merchants and furthermore, Dixie will provide the business with a strong track record in sales and marketing strategy and execution. As a result of the Acquisition, the Enlarged Group will be well placed to maximise sales and distribution opportunities for both Freeplay's existing and future products in the US.

On Admission, Peter Porteous, CEO of Dixie will be appointed chief executive of the Enlarged Group and the Board will be further strengthened by the appointment of both William and Edward Barrett, Harold Reiter, Barrett Corporation President and COO of Barrett Corporation and Stuart Kinney, Barrett Corporation General Counsel. These additions to the Board will provide valuable sales, marketing and distribution experience that is required to enable the delivery of the Enlarged Group's strategy of developing a sustainable energy development, sales, marketing and distribution company.

## **3. INFORMATION ON DIXIE**

### **Overview**

BMGI will directly own the entire issued share capital of Dixie upon completion of the Acquisition Agreement. The Dixie shares are owned by an intermediary holding company, BDS which, in accordance with the Acquisition Agreement, will be dissolved and liquidated prior to completion so that the BMGI Group will consist of BMGI, Dixie and Mower MD a joint venture in which Dixie has a 50 per cent. interest. On Admission, Dixie and Mower MD will be the only trading entities within the BMGI Group.

### **History**

The business of Dixie was founded in 1914 and Dixie was incorporated in 1950. In 2001 the Barrett Corporation acquired 75 per cent. of Dixie and in 2005 it acquired the remaining 25 per cent. of Dixie from Jim Starmer, the president of Dixie.

## **Operations**

Dixie is an established sales, marketing, distribution and customer service provider based in Greensboro, North Carolina, USA. Dixie provides a full range of services to its customers and suppliers, which includes customer and supplier account management, customer and supplier logistics, consumer call centre services and technical services such as training and education to customers. Dixie also has electronic ordering and e-commerce tools.

Dixie's core business includes the sales and marketing of parts to the lawn and garden industry, hand held power tools, generators and as a distributor for whole goods such as scooters, quad bikes, go-karts and hand held lawn and garden equipment on behalf of manufacturers. These parts are sourced from large manufacturers and distributed via private carrier or postal services to customers all over the USA and Canada. In addition, Dixie provides customer care and repair centre network management to a number of its clients.

Dixie's headquarters and main warehouse are based in Greensboro, North Carolina, USA. Dixie also operates a further three warehouses based in Florida, Tennessee and Ontario under a service agreement. This network of locations enables Dixie to arrange for the delivery of goods to over half of the USA in one day and over two thirds of the USA within two days (Source: UPS website).

Dixie's service offerings are as follows:

### *Sales and Marketing*

Dixie sells a wide range of products including parts to the lawn and garden industry and handheld power tools. In addition, Dixie markets and sells a range of finished goods such as scooters, quad bikes, go-karts and hand held lawn and garden equipment. These products are sourced from both domestic and international manufacturers. Sales are completed through three main channels including an extensive dealer network (consisting of approximately 11,000 dealers in the United States and 800 dealers in Canada), national mass merchant retailers and direct to the consumer through the use of its call centre and a newly redesigned web-site.

Dixie's major suppliers include MTD Consumer Inc. (Products include: Cub Cadet, Troy-Bilt, YardMan, YardMachine, White Outdoor, McCullough), Electrolux Home Products (Products include: Poulan, Poulan Pro, WeedEater), and Komatsu Zenoah America (Products include: RedMax).

Over the past few years Dixie has made significant investment in enhancing its IT capability, which has enabled Dixie to integrate its IT platform with that of the customer. In addition, Dixie has improved its web-site ("Ordertree.com"), which has been a factor in the double-digit growth of the consumer direct channel over the past year. In the year ended 31 December 2005 electronic ordering represented approximately 20 per cent. of total sales, compared with approximately 2 per cent. four years ago. The consumer direct channel (database) now consists of approximately 400,000 customers.

Dixie uses EDI or direct system access ordering with most of its major client relationships that results in reduced cost and improved processing time.

### *Customer Care*

Dixie operates a call centre staffed by approximately 100 highly trained customer service agents that handled approximately 1.1 million calls in 2005 from call centres located in Greensboro, North Carolina and through a service agreement with personnel in Woodstock, New Brunswick. The customer service team provide services such as:

- Responding to queries to the manufacturer's 1-800 customer care line;
- Placing of orders;
- Technical assistance to the customer to ensure that the correct part is ordered;
- Proper routing of consumers to a certified repair centre;
- General technical assistance to customers (end users); and
- Warranty registration and claim processing.

### *Fulfilment*

Dixie distributes its goods through three US distribution centres located in North Carolina (Greensboro), Tennessee, Florida and one in Ontario (Canada) through a service agreement. Dixie currently manages the distribution of approximately 450,000 SKU's and provides fulfilment ordering that results in the capability of delivering goods from orders placed up to 6.00 p.m. the previous evening to approximately one half of the US (the next day). The length of time taken to fulfil an order is particularly important for national mass merchant retailers and dealers. In addition Dixie achieved a 'fill rate' (product on hand available to ship in its entirety at time of order placement) of approximately 93 per cent. in the year ended 31 December 2005, compared to the industry norm of approximately 90 per cent. This results in improved shipping economics and more importantly enhanced customer satisfaction.

The combination of Dixie's service offerings has made it the partner for many manufacturers, dealers and national mass merchants. For example, one national mass merchant has advised its suppliers that Dixie is the partner of choice to provide the special parts order solution. In addition, several manufacturers compensate Dixie for access to its extensive dealer network and customer database.

Dixie entered into an exclusive distribution agreement with Freeplay in respect of the sale of Freeplay's products in North America commencing in May 2005. Under this agreement Freeplay reimburses Dixie in respect of certain costs in return for which Freeplay receives a share of the profit generated by the relationship. This agreement is summarised in more detail in paragraph 7.1(m) of Part VII.

### **Market background**

#### *Overview of marketplace*

Dixie's core market is the development and management of dealer/repair centres. It also handles the sales of parts and accessories through a number of different sales channels, including independent dealer/repair centres, mass retailers, branded national service centre solutions, such as AltaQuip and directly with end consumers. A significant portion of category sales are now controlled by the national mass retailers. Dixie is evolving its business to reflect and capitalise on these market changes while reducing risk in the distribution business. The mass retailer and consumer direct channels offer stronger gross margin and sales growth potential. Dixie is able to offer a one stop North American service solution for manufacturers and retailers.

#### *Competitors*

Current competition tends to specialise in targetted areas or primary product lines. The dealer channel is a very competitive market place with many different companies/sources competing for repair centres purchases. Competition can arise from alternate sources of OEM, competing OEM brands or aftermarket product. The competitive environment is less crowded with respect to providing service/parts program solutions for the mass retailers or one stop North American service execution.

#### *Competitive factors*

For all channels access to quality information and trained/certified personnel are key differentiators. The dealer channel seeks competitive pricing, high fill rate, timely shipping and receipt of product. The mass retailer is looking for a partner who can execute across a number of brands (category solution) consistently for all of their stores (national solution). The retail direct customer is searching for competitive pricing, excellent information/answers and prompt service and product delivery.

### **Current trading and prospects**

- Dixie's key strategy is to focus on developing new distribution channels for its business by:
  - increasing direct sales to consumers through its online sales portal [www.ordertree.com](http://www.ordertree.com);
  - continued skill enhancement of customer care and sales teams;
  - developing its relationships with national retailers and service only providers. In the year ended 31 December 2005, sales to national retailers grew by 66 per cent. as a result of a focused mass retailer customer care team, proactive store clerk education of the

- support/business building tools available through Dixie and the launch of a new, advertised consumer direct parts hotline for Lowes; and
- expanding and enhancing relationships with the core dealer/repair centre customer base. This sector represents approximately 70 per cent. of Dixie's business.

## **Senior Management of Dixie**

### ***Peter Porteous (age 43), Chief Executive Officer***

Peter Porteous joined Barrett Corporation in 1989 where latterly he was the President of the Barrett Marketing Group Ltd. When Barrett Corporation purchased Dixie in 2001, Peter Porteous became the Chief Executive Officer of Dixie. Prior to his involvement with Barrett Corporation, he was Director of Marketing at Kraft Foods, where he gained significant experience in sales, distribution and marketing. He studied for his commerce degree at the Carleton University, graduating in 1986 and has been a member of YPO (Young Presidents Organisation) since 2002.

### ***Jim Starmer, (age 59), President***

Jim Starmer has been involved with Dixie since 1969 and has substantial experience in the distribution industry which is combined with technical expertise. He also has significant industry contacts and manages important vendor relationships.

### ***Mike Rounsavall (age 45), General Manager***

Mike Rounsavall graduated in 1983 from the North Carolina State University with a degree in economics. In 1994 he undertook an MBA at the University of North Carolina, becoming an MBA Professor at the Youngstown State University, Ohio in 2002. Mike Rounsavall joined Dixie in March 2005 having been the Vice President of Operations and Technology at the Ohio division of Alphabet Inc, a large manufacturing company. The division generated US\$200 million of revenue from US, Mexican and Brazilian locations. He was responsible for 2,000 employees supplying market leaders in the heavy truck and agricultural markets.

### ***Laura Garrett (age 44), Chief Financial Officer***

Laura Garrett graduated from the University of North Carolina with a degree in business and accounting. She qualified as a Certified Public Accountant in 1986 whilst working for Breslow Starling Frost Warner Boger Hiatt who are the current auditors of Dixie. Laura Garrett began working for Dixie in September 1995 and is responsible for the finance and accounting function.

### ***Craig Stewart (age 48), Manager Dealer Sales General***

Craig Stewart joined Dixie in 2001 having worked for the Barrett Corporation since 1988. He is responsible for the entire dealer sales channel, managing accounts, marketing, sales, program management and customer care.

### ***Mark Brennan (age 36), Manager, Retail Sales and Canada***

Mark Brennan joined Barrett in 1999 and has been working exclusively on the Dixie business through a service agreement since 2004. He graduated in business marketing in 1994 from the New Brunswick College and is responsible for the operation of the retail, mass retail and Canadian businesses.

### ***Doug Holmes (age 43), Manager, Procurement and Productivity***

In 1984 Doug Holmes graduated from the Eastern Carolina University with a degree in industrial technology. He previously worked for Alphabet Incorporation and was a Senior Program Manager before joining Dixie in November 2005. Whilst working for Alphabet, he was responsible for co-ordinating Mexican associates and plant management. At Dixie, he is responsible for managing stock levels and productivity. He was recruited to add experience and the necessary skills to the stock operations.

### ***David Stephens (age 39), Manager IT & Operations***

David Stephens has a degree in electrical engineering from the North Carolina State University. Before joining Dixie in March 2002, he worked for Signum, a North Carolina company as Business Unit

Manager. David Stephens played a major role in upgrading Dixie's operating platform and implemented a new call centre operating system. David Stephens is also responsible for the operation of all of Dixie's warehouse branches.

***Doug Azbell (age 41), Business Manager – Freeplay***

Doug Azbell graduated from the Anderson University in Indiana with a management degree. He was a sales manager between 1992 and 1998. Doug Azbell is now the Project Manager of Freeplay.

***Darla Fain (age 39), Manager, Human Resources***

Darla Fain obtained a business degree specialising in human resources from the Indiana University. She is currently studying for a masters degree in organisational development at the Case Western University, Cleveland. She joined Dixie in 1999 and is responsible for payroll, recruitment, appraisal and staff welfare. Darla has two HR administrative assistants.

**Principal terms of the Acquisition Agreement**

On 17 May 2006 the Company entered into the Acquisition Agreement with BMG, a wholly owned subsidiary of Barrett Corporation, for the purchase of the entire issued share capital of BMGI, which, through a wholly owned subsidiary, BDS, owned the entire issued share capital of Dixie. Under the terms of the Acquisition Agreement, the Company agreed to a consideration which will be due to BMG consisting of the Consideration Shares and US\$1.084 million by way of a promissory note secured over the shares in and assets of Dixie.

Prior to completion of the Acquisition, certain liabilities in BMGI will be assumed by BMG and BMGI will be released from these liabilities. These include amounts due to James E Starmer, Jr and Richard L Starmer pursuant to certain promissory notes in connection with BMG's acquisition of Dixie and certain intercompany loans due from BMGI to BMG.

The Acquisition Agreement contains warranties and indemnities from BMG in favour of Freeplay and certain warranties and indemnities from the Company in favour of BMG in respect of itself. The Acquisition is conditional, *inter alia*, on the passing of the Resolutions and Admission.

The Consideration Shares to be issued pursuant to the Acquisition Agreement will represent approximately 35.26 per cent. of the Enlarged Issued Ordinary Share Capital and will, when issued, rank *pari passu* in all respects with existing Ordinary Shares then in issue, including all rights to all dividends and other distributions declared, made or paid following Admission.

Further details of the Acquisition Agreement are set out in paragraph 7.1(b) of Part VII of this document.

**Financial information**

The following financial information, which has been extracted without adjustment from the financial information on Dixie contained in Part III of this document and should be read in conjunction with the full text of this document. Shareholders should read the whole document and not rely solely on the key or summarised information.

	<i>Year ended 31 December</i>		
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Turnover	40,622	35,318	36,975
Gross profit	12,743	10,629	10,782
Operating profit	1,111	521	252
Profit/ (loss) before taxation	677	206	(13)

As at 31 December 2005, Dixie had gross assets of US\$18.3 million.

## 4. INFORMATION ON FREEPLAY

### History

In April 1994, Chris Staines and Rory Stear began to develop and commercialise the technology of Trevor Baylis' wind-up radio following a feature on BBC1's Tomorrow's World programme.

In February 1996, the original wind-up radio (Freeplay's first commercial product) was manufactured and exported to the UK, Holland and Africa for the first time and subsequently to the US in May of the same year. Following interest in this initial product, the Freeplay brand was launched in September 1996.

Freeplay has developed patented technology that enables exerted human energy to be captured, stored and delivered in an electrical form to power a range of electronic devices. First applications include radios, torches and a mobile phone charger, with over 3.7 million units sold.

Freeplay seeks to create, develop and supply the market for self-powered energy products internationally. This is being accomplished through both the establishment of its own products in the market, and the formation of strategic alliances with partners, aiming to combine compatible technology with market leadership. At the same time however, its intellectual property rights and know-how mean that it may be able to licence or 'whitelabel' its technology to other brands as the market develops.

Freeplay believes it was first to market and commercialise self-powered technology and that it is recognised as a leading brand in the market for such products. Freeplay believes there are competitive offerings but that those competitive offerings utilise technology which is less efficient.

The Group has received a number of substantial investments since 1997 including:

- in March 1997, General Electric Pension Trust invested US\$10 million for a 33 per cent. stake in the Group;
- in May 1998, the US satellite company, WorldSpace International Network Inc, invested US\$5 million for a 10 per cent. stake in the Group;
- in September 1999, South Africa Capital Growth Fund invested US\$10 million;
- in November 1999, BoE Ventures Limited and Transatlantic Private Equity (Pty) Ltd jointly invested US\$3 million;
- in June 2004, Nutraco Nominees Limited invested £0.35 million in the Group through the issue of convertible loan stock;
- in January 2005, Nutraco Nominees Limited, Chetwynd Nominees Limited and Framley Consultancy Limited invested, £0.865 million, £0.135 million and £0.5 million respectively in the Group through the issue of convertible loan stock; and
- in February 2005, the Company raised £3.5 million through a placing on the admission of its Ordinary Shares to trading on AIM.

In 1998, the Freeplay Foundation was established. The Foundation is a non-profit organisation whose key aim is to promote access to information using alternative energy solutions. The Foundation is a fund-seeking organisation with tax-exempt status in the US, a non-profit organisation in the Republic of South Africa and a registered charity in the UK. The Freeplay Foundation is committed to providing innovative, affordable and practical energy solutions to ensure sustained access to information via radio.

The Foundation receives an annual donation from the Group of US\$150,000, certain administrative resources are shared with the Group and the Group provides office accommodation for the Foundation. The Foundation uses the donation from the Group to fund its overheads whilst funds raised externally by the Foundation are used for designated projects carried out by the Foundation. In 2005 over £230,000 of external funds were raised by the Foundation to fund humanitarian projects.

Working on a public-private sector partnership model, the Freeplay Foundation collaborates across sub-Saharan Africa with a variety of government ministries such as ministries of education, health, agriculture and labour; UN agencies including UNDP, UNICEF and UNHCR; international Non Governmental Organisations such as World Vision, PATH, CARE, Nelson Mandela Children's Fund, Red Cross and Green Belt Movement; and radio content providers such as Takalani Sesame, Soul Buddyz, Education Development Center and BBC World Service Trust.

Beginning in 2001, the Company signed a worldwide exclusive co-branding and distribution agreement with Motorola to develop and market Freeplay's mobile phone charger, the FreeCharge. This agreement has subsequently concluded in accordance with its terms (see below) but has provided Freeplay with a product that is currently being adapted to provide self-powered energy to the majority of the world's most popular brands of mobile phones.

In 2001, new patent applications were filed for third generation direct charge technology.

In July 2002, the Summit Radio was launched, which for the first time incorporated Freeplay's technology with digital tuning.

In April 2003, the Lifeline Radio, a product developed specifically for the developing markets and not for retail sale, was launched.

In 2003, Freeplay and Motorola mutually agreed to terminate their exclusive arrangement concerning the mobile phone charger jointly developed by them due to the inability to reach agreement on the technical specifications but agreed that Motorola's manufacturer will continue to be available to Freeplay as a manufacturing base. All tooling and IP associated with the FreeCharge product became the exclusive property of Freeplay.

In October 2003, Freeplay completed its group reorganisation with the relocation of its finance team to Cape Town, South Africa.

In February 2005, the Company's Ordinary Shares were admitted to trading on AIM.

## **Products**

### *Radio – Consumer & Outdoors*

Radio models include the Freeplay Ranger (previously known in North America as the Coleman Outrider), Freeplay Summit, Freeplay Plus and the EyeMax (with light and with weatherband and the Devo DAB and FM receiver). These products will play for approximately twenty to thirty minutes (volume dependent) per forty-five second wind, and can be rewound at any time. The units can also be powered with its solar cells by sunlight, playing and charging simultaneously. The internal batteries can be fully charged via the solar panel or an AC/DC adapter, to give approximately twenty five hours' playing time once fully charged. Freeplay's range of radios are positioned both for the outdoors market and, particularly in the US, for the emergency preparedness market. The radios are sold through stores specialising in the outdoors and sporting goods, DIY, department stores, consumer electronics and also through catalogues and online.

### *Radio – Humanitarian*

Freeplay's Lifeline Radio is not sold in retail outlets but is available to aid and donor agencies, which range from UNICEF through to corporate sponsors such as Vodafone Group plc, for humanitarian broadcasting projects. The units can be powered by wind-up (direct charge) and solar power and have been designed and engineered to be highly robust for use in the harshest of rural conditions and climates. In certain markets, the Lifeline Radio is available commercially in a cause-related offering. For example, in a project with a customer C. Crane Company, Inc. for every Lifeline Radio purchased by C. Crane Company, Inc. one Lifeline Radio is donated to the Freeplay Foundation for distribution to one of its humanitarian projects.

### *Illumination*

Currently illumination products include Xray LED, Jonta and Kito flashlights, the Emergency Light Centre and the Indigo table lantern. Approximately 45 seconds of winding gives from 10 minutes to 60 minutes of light, depending on the model and light intensity selected.

Recharging the products via an AC/DC adapter allows for approximately five hours of light at normal brightness and thirty minutes at high brightness. The torches are designed for repeated and long-term use. These torches are sold in outdoors and sporting goods stores, DIY and department stores, as well as online, and through catalogues and automotive retailers.

The lantern is designed to provide both space and surface illumination to users in both developed and developing markets.

### *Mobile Phone Charger*

The FreeCharge mobile phone charger was originally developed in partnership with Motorola, to its specification in 2001 as an accessory for Motorola mobile phone handsets. However, the Group has now adapted the initial charger for the powering of major brands or series of mobile phones. Two models of the FreeCharge are available. One model is a low-cost 12 volt unit which is adapted to hand sets via a standard cigarette lighter adapter. The other model is a multiple voltage unit with versatile connectivity which is able to power a wide range of cell phone handsets and other personal electronic devices.

The internal battery can be charged via the alternator, or an AC/DC adapter, and energy can be stored in the charger itself, to be supplied to the mobile phone when required. Approximately forty-five seconds of winding provides about three minutes of call time, and several hours of standby.

### *Standalone Foot Charger*

Freeplay's foot charger (known as the Weza) was launched commercially in the third quarter of 2005. It delivers 12 volts of power to a wide range of appliances, including a main voltage inverter. Both Governmental bodies and commercial entities in several African countries have expressed strong interest for both telecommunications purposes and rural domestic use.

## **Research and Development Facilities**

Freeplay Technology, the research and development division of the Group, is a fully integrated mechanical and electrical product development and project execution resource that includes concept creation, design, sourcing and the promotion of solutions.

There is also an external market for Freeplay's product development expertise. This has allowed the Group to undertake a number of external collaborative projects. In 2003 the research and development resource of the Group was utilised in the ratio of approximately 65 per cent. for internal projects and 35 per cent. for external projects. In 2004 this ratio was 85 per cent. for internal projects and 15 per cent. for external projects, as the focus of the Group shifted back to a more intense new product development programme. In 2005 all research and development efforts were internally focussed as a result of the high new product development activity.

Freeplay has been contracted to develop the alternative energy solution for MIT's "Hundred Dollar Laptop" project, also known as the "One Laptop Per Child" programme. First prototypes were delivered to MIT mid-April and final designs are expected to be completed during July.

Freeplay is broadening its energy base by allocating research and development resources into solar and wind technology.

## **Distribution**

Freeplay's business development director is actively supported in the Western and Eastern hemispheres by specialised sales management who in turn have responsibility for the day to day management of the Group's distributors.

The following distribution arrangements exist:

- In the UK, Freeplay will manage distribution itself but will also engage third party distributors on a non-exclusive basis, such as Tango Group Limited. Tango Group Limited is headed by Vivian Blick who was previously a senior executive at the Company responsible for business development in the eastern hemisphere for 6 years. In the year ended 31 December 2005 Freeplay made sales of US\$1.1 million to Tango Group Limited.
- Dixie Sales Company Inc, is the Group's exclusive distributor of all Freeplay products in North America. The agreement commenced in May 2005. Dixie also took over the management of and relationship with C. Crane Company, Inc, referred to below. Under the agreement, Freeplay reimburses Dixie for certain costs in return for which it is entitled to a share of the profit generated by the relationship. This agreement is summarised in more detail in paragraph 7.1(m) of Part VII.
- An exclusive agreement with WP Phones International's Hong Kong subsidiary, WP Phones International Hong Kong Limited for its FreeCharge Mobile Phone Charger in Africa and the Caribbean region. The five year agreement will provide Freeplay with minimum annual sales through WP Phones International Hong Kong Limited of 1.1 million units of the FreeCharge mobile phone charger.
- An agreement under which C. Crane Company, Inc., distributes the Freeplay Plus radio through its catalogue. C. Crane Company Inc. is a US Company that operates a catalogue business through mailing lists. C. Crane Company Inc. primarily sells Freeplay products through its catalogues. In the year ended 31 December 2005, Freeplay made sales of US\$0.2 million to C. Crane Company Inc.
- An exclusive agreement with CICCI, a Danish headquartered multinational which specialises in the aid and donor market. The relationship with CICCI supports the Company's own efforts to the aid and donor market. CICCI holds inventory thereby allowing it to supply smaller orders whilst seeking sales for the Group's products through Government tenders and other development opportunities. This in turn ensures that the Group is widely represented in these important markets.
- An agreement with Connoisseur Electronics (Pty) Limited which distributes audio and illumination products in South Africa, Namibia, Botswana, Swaziland and Lesotho. The agreement is exclusive in relation to certain customers in those territories.
- Several non-exclusive distribution arrangements exist in Western Europe, Africa and Australia, all of which have potential for future growth as the Company develops products appropriate to these markets. Non-exclusive distributor agreements are in place with SITE Logistics for Kenya, D.B Electrical & Lighting Distributors for Namibia, African Cell Connect for Botswana, Brentford Energy for Zambia, OfficeMart for Malawi, The Crammond Group for Zimbabwe, Alternative Energy Solutions for Rwanda and Multi-Powered Products for Australia.

### **Manufacturing**

Prior to 1999, the manufacture of the Company's products was carried out in-house in Freeplay's factories in South Africa. During 2000 the management of the Company undertook an exercise to evaluate the efficiencies of the South African factories and as a result chose to relocate the manufacturing of its products to China in February 2001.

Solar Electronics Corporation Limited is currently the principal manufacturer supplying the Group and is responsible for the sourcing of raw materials and other components, the physical manufacture as well as delivery of the finished goods to port for shipment. Freeplay does, however, source some of the specialised components directly. In addition to Solar Electronics Corporation Limited, Sun Young Electronics Limited is responsible for the manufacture of the FreeCharge mobile phone charger, Power Pro Manufacturing Limited manufactures the foot charger described above, Hip Shing Electronics Limited manufactures the Devo Radio and More Bright Technology Limited is the manufacturer of the Kito Flashlight.

Apart from those mentioned above, there are no other significant suppliers to the Group. The Directors are aware of the risk associated with the supplier concentration, but believe that it is currently the best approach for the Group due to increased negotiation leverage.

## 5. FUTURE STRATEGY AND CURRENT TRADING

For the year ended 30 December 2005, turnover was US\$3.1 million (2004: US\$6.3 million) with sales of US\$2.6 million in the second half contributing to overall turnover for the period. This reduction in turnover was impacted by like for like turnover in the UK and Continental Europe decreasing by 37 per cent., due to a recall of Devo, the Company's new portable DAB and FM radio and Weza, Freeplay's FreeCharge portable energy source, towards the year end. Both these one-off issues have now been resolved and the product was reshipped to distributors in the first quarter of 2006. Turnover was also affected by the change in accounting treatment of revenue recognition as a result of the distribution agreement with Dixie, the Group's North American distribution partner.

Gross profit fell to US\$1.1 million (2004: US\$2.1 million) as a result of the reduction in revenue. In line with expectations, administrative expenses increased by 97 per cent. to US\$5.5 million (2004: US\$2.8 million) as a result of the Group's investment in new staff, business development costs incurred in the US to set up the new distribution relationship and unrealised foreign exchange losses. Freeplay reported a substantial increase in operating loss to US\$4.4 million (2004: US\$0.7 million) and the loss before taxation increased to US\$4.5 million (2004: US\$2.0 million). The Group utilised research and development tax credit claims of US\$0.2 million bringing the loss for the financial year to US\$4.3 million (2004: US\$2.0 million).

The technical issues relating to the Weza FreeCharge portable energy source, and Devo, a portable DAB and FM radio, which were recalled in December have been resolved and these orders were re-shipped during the first quarter of 2006.

As at 21 June 2006, Freeplay's total sales book, including product shipped, orders received and placed on the factory and orders received and not yet placed on the factory, pending release of funds, was approximately US\$6.1 million for the financial year to date as follows:

- Approximately US\$837,000 relates to aid sales, and the Freeplay Foundation has to date purchased 25,000 Lifeline radios;
- US\$330,000 relates to the delivery of Lifeline radios to UNICEF;
- Approximately US\$1 million was generated in Africa by Ubuntu Trading in Nigeria; by Angola, and by Connoisseur, the Group's new South African distribution partner;
- US\$450,000 was generated by sales made to distributors in the UK and Europe;
- US\$900,000 from sales through Dixie and Crane in the US;
- A US\$1.8 million agreement with WP Phones; and
- A US\$100,000 order by Connoisseur relating to Kito and Xray products.

Additional recent orders include a further order of US\$143,000 for a range of products to the EU, an AID order of Lifeline radios of US\$300,000 and a US\$317,000 order, through Tango Group, for the supply of Ranger radios and Kito flashlights to the UK Ministry of Defence. These new orders bring Freeplay's total sales book to US\$ 6.1 million, including US\$1.4 million for Freeplay's AID and Humanitarian division.

In addition, Freeplay has entered into a distribution agreement with WP Phones for its FreeCharge mobile phone charger in sub-Saharan Africa. The five year agreement will provide Freeplay with minimum annual sales through WP Phones of one million units per annum. It is anticipated that the first shipment will be made in the last quarter of 2006. This agreement was extended on 12 June 2006 to cover the Caribbean for an additional 100,000 units of the Free Charge mobile phone charger. The total agreement is now for a minimum 1.1 million units per annum over the next five years.

Freeplay has signed a Long Term Arrangement ("LTA") with UNICEF to be the sole supplier of wind-up radios, the Freeplay Lifeline radio, to UNICEF. Following independent testing, UNICEF chose the Freeplay product for an opening order, indicated above, of 20,000 radios for Madagascar and, in addition, the contract will make the Lifeline radio available to the entire United Nations through UNICEF. Under the terms of the contract, the United Nations will no longer need to tender for the supply of wind-up radios to its sister organisations.

Dixie has been successful in securing some major listings of Freeplay's products with large North American retailers, including: (i) Target who will be rolling out the Kito flashlight in 200 stores in "weather states"; (ii) Macys MidWest who will be rolling out 3 SKU's into 86 US stores; (iii) Sharper Image who have listed the EyeMax radio across their stores and their website and (iv) REI a leading

outdoor recreation retailer. Dixie is working to a targeted plan to ensure that Freeplay is listed with primary retailers in each of the key channels – sporting goods, consumer electronics, home improvement and emergency preparedness.

In terms of products, production continues to progress in line with development plans. The Group has commenced tooling a table lantern and 12 volt FreeCharge mobile phone charger. The power Supply for a prototype self-powered laptop computer is being developed in conjunction with a partner who has confirmed the provision of funding for the project.

The future strategy for 2007 is to continue to maximise sales in North America, Europe, and Africa. Other opportunities will be considered as they present themselves. An example of such an opportunity is the current evaluation of a distribution partner in India which remains one of the fastest growing economies in the world.

As a result of the opportunities outlined above the Directors are confident of the Enlarged Group's future prospects.

## **6. DIRECTORS**

The Board currently comprises seven Directors, brief biographies of whom are set out below. Baroness Chalker and John Hutchinson have agreed to resign from the Board upon Admission. Details of the service contracts and letters of appointment relating to Directors and the Proposed Directors are set out in paragraph 5 of Part VII of this document. Further details of the Directors' and the Proposed Directors directorships, both current and in the past five years, are set out in paragraph 6 of Part VII of this document.

### ***Rory Stear, age 47, Chairman and Chief Executive***

Rory Stear has over twenty years of experience in corporate leadership, new business development and strategic planning. He co-founded Freeplay in 1994, and has been CEO since inception. Rory Stear was previously Managing Director of Seeff Corporate Finance (Pty) Ltd, a joint venture between him and a listed South African property group. He has been the recipient of various awards, including the Theodor Herzl Award for outstanding business achievement (2000), as well as being named as one of Business Week's Entrepreneurs of the Year 2000. Rory Stear is a fellow of the Schwab Foundation for Outstanding Social Entrepreneurs which is affiliated to the World Economic Forum. He has been a regular contributor to the Forum's events having made presentations at the Forum's annual meeting in Davos over the last three years. Rory Stear is also a member of both the Young Presidents Organisation, the Dean's Council at Harvard University's John F. Kennedy's School of Government and the Advisory Board of the Business School of Nelson Mandela University, Port Elizabeth.

### ***Richard Court, age 41, Finance Director***

Richard Court has fifteen years experience in financial and general international management. Having qualified as a UK Chartered Management Accountant in 1990 and been awarded fellowship in 1993, he worked for three years as Financial Controller of Quadrant Catering a division of the Post Office in the UK where he was responsible for the strategic development of financial systems. He has also worked as a divisional financial controller of Kwik Fit plc. Richard Court spent eight years as director of finance and operations with Periphonics Limited, a specialist computer hardware and voice driven software company which was brought to Nasdaq in 1995 and, later acquired by Nortel Networks. Having integrated Periphonics and a number of acquisitions into Nortel's EBusiness Europe, he spent a year in Nortel Network's Brazilian operation as CFO Brazil managing a significant downsizing. Richard Court joined Freeplay in 2004.

### ***John Hutchinson, age 54, Technology Director***

John Hutchinson joined Freeplay in 1995 and has been involved with the development of Freeplay's technology and products from the outset. He leads a team of ten engineers and industrial designers, responsible for the advancement of Freeplay's technology and the creation of new products. John Hutchinson graduated with a degree in engineering from the University of Cape Town in 1976, and has since acquired an MBA from the University of Cape Town. Prior to joining Freeplay, he spent 20 years in the manufacturing industry in South Africa. His career began with Barlow Rand Group, working with several start-ups, including in the bicycle and consumer electronics sector such as Justastat, Genventics Electronics, Superbikes and Western Flyer Cycles.

***The Rt Hon Baroness Chalker of Wallasey, age 65, Non-executive Director***

Before entering Parliament in 1974, Baroness Chalker worked for Kodak Inc, Unilever Limited (Research), Shell Mex, British Telecom plc, Louis Harris International and Barclays Bank Limited. She was appointed a Life Peer in the House of Lords in 1992. Baroness Chalker returned to business in 1997 and joined the World Bank Africa team as an advisor. She formed her own consultancy, Africa Matters Limited, in 1998. Baroness Chalker was appointed as an advisory director of Unilever plc in 1998, and Chairman of its External Affairs and Corporate Relations Committee in 1999. She is also a non-executive Director of Group 5 (Pty) Ltd in South Africa, and of Ashanti Goldfields Company Limited. In 2001, she was appointed to the Presidential Advisory Council on Investment for Nigeria, and now leads the Council for President Obasanjo. Baroness Chalker joined Freeplay in 1997.

***Leonard Fassler, age 74, Non-executive Director***

Leonard Fassler is a founder, Director and Chairman of Vytex Wireless, Inc., a privately owned wireless company that has recently announced its merger with California Amplifier, Inc., a NASDAQ quoted company. In 1999 Leonard Fassler co-founded Interliant, Inc., an internet web-hosting company and in 1992, co-founded and served as Co-Chairman of AmeriData Technologies, Inc., a New York Stock Exchange-listed IT company, acquired by General Electric Capital Corporation in 1996. Prior to AmeriData, Leonard Fassler was co-founder and Co-Chairman of Sage Broadcasting Corp., a NASDAQ-listed company. Leonard Fassler holds a bachelor's degree in business administration from City College of New York and a law degree from Fordham Law School. Leonard Fassler has been associated with Freeplay for over five years.

***Gordon Roddick, age 63, Non-executive Director***

Gordon Roddick co-founded The Body Shop with his wife, Anita Roddick, in 1976 as a one-shop venture in Brighton. As Co-Chairman of The Body Shop, Gordon Roddick has devoted considerable energy to providing assistance to disadvantaged groups around the world, through the company's Trading with Communities in Need programme. Gordon Roddick brought to the UK the idea of street newspapers and co-founded the Big Issue with John Bird. Gordon Roddick joined Freeplay in 1999.

***Andy Polansky, age 44, Non-executive Director***

Andy Polansky is president of Weber Shandwick Worldwide, a leading, international public relations agency and part of the Interpublic Group of Companies. He has been with Weber Shandwick for more than 20 years, and was appointed to his current global role in March 2004 after leading the firm's North American business. He sits on the Board of Trustees of the Institute for Public Relations, an independent foundation in the field of public relations focusing on research and education. Andy Polansky also serves on the Honors & Awards Committee of The Public Relations Society of America, and on the Council of PR Firms Client Advisory Committee. In addition, he is a member of the McCann WorldGroup board and a member of Weber Shandwick's board.

On Admission, Rory Stear will become Chairman and Peter Porteous will be appointed Chief Executive Officer and Baroness Chalker and John Hutchinson will resign as Directors. In addition Harold Reiter will be appointed to the Board as Non-executive Deputy Chairman and Edward Barrett, William Barrett and Stuart Kinney as Non-executive Directors. Details of the Proposed Directors are outlined below:

***Peter Porteous age 43, Proposed Chief Executive Officer***

Peter Porteous joined Barrett Corporation in 1989 where latterly he was the President of BMG. When Barrett Corporation purchased Dixie in 2001, Peter Porteous became the Chief Executive Officer of Dixie. Prior to his involvement with Barrett Corporation, he was Director of Marketing at Kraft Foods, where he gained significant experience in sales, distribution and marketing. He studied for his commerce degree at the Carleton University, graduating in 1986 and has been a member of YPO (Young Presidents Organisation) since 2002.

***Harold Reiter age 52, Proposed Non-executive Deputy Chairman***

Harold Reiter joined the Barrett Corporation in 2003 and is President and Chief Operating Officer. Prior to joining Barrett Corporation, he was President and Chief executive Officer of Maxxcom Inc., a company engaged in providing marketing and communications services in the United States, Canada and the United Kingdom. He was Executive Vice President responsible for Canadian Operations for

CIT Financial Ltd. (Formerly Newcourt Credit Group Inc.), which he joined in 1998. Prior to this he was a partner with Ernst & Young in Toronto, Canada.

***Edward Barrett age 52, Proposed Non-executive Director***

Ed Barrett is a shareholder and Co-CEO of Barrett Corporation, a privately held international management company, based in Woodstock, New Brunswick, Canada. Founded in 1976 and largely held by members of the Barrett Family, Barrett Corporation holds equity positions in several North American companies primarily in telecommunications, real estate development and as sales, marketing and distribution service providers.

Outside of Barrett Corporation Ed serves on three corporate boards, is Chairman of Atlantic Baptist University and sits on the advisory board of the Manning School of Business at Acadia University. Ed graduated with a BA from Acadia in 1975 and a MBA from Dalhousie University in 1977.

***William Barrett age 54, Proposed Non-executive Director***

William Barrett is a shareholder and Co-CEO of Barrett Corporation, a privately held international management company, based in Woodstock, New Brunswick, Canada. Founded in 1976 and largely held by members of the Barrett Family, Barrett Corporation holds equity positions in several North American companies primarily in telecommunications, real estate development and as sales, marketing and distribution service providers.

Outside of business, William Barrett is active in several charitable organisations and serves on a number of industry boards. He graduated from Acadia University in 1974 and presently serves on its Board of Governors.

***Stuart Kinney age 47, Proposed Non-executive Director***

Stuart graduated from University of King's College, Halifax, NS with a Bachelor of Arts in 1984 and earned his Bachelor of Laws at the University of New Brunswick Law School in 1988. Following graduation he clerked for the Federal Court of Canada, Trial Division in Ottawa Canada. He was called to the Bar in New Brunswick in 1990 and remained in private practice until he joined Barrett Corporation in 2001 as General Counsel, where he has managed the company's mergers and acquisitions and financings, and participated in strategic planning and direction for its distribution business in Canada and the US. He holds membership in the Canadian Bar Association and in the Law Society of New Brunswick, where he has served on the Bar Admission Course Committee and as an Instructor for the Course. From 2002 to 2004 Stuart Kinney served as Director of Region 3 Hospital Corporation of New Brunswick, a public sector health services corporation, where he also served as Chair of the Finance and Strategic Planning Committee for two years. For the last ten years he has served as Chair of the Carleton Memorial Hospital Foundation.

## **7. KEY EMPLOYEES**

***Paul Hanegraaf, Group Manufacturing Services Manager***

Paul Hanegraaf has been involved in electronic research and development since 1978 initially with Barlows Communications Company (Pty) Ltd (SA). He later established his own specialised development house providing turnkey industrial solutions for electronic machinery. He joined Freeplay in 2001. Paul Hanegraaf has a national diploma in electronic engineering from the University of Natal.

***Philip Goodwin, Group Product Manager***

Philip Goodwin, joined Freeplay from Arrk Product Development Group in London in 1998. Initially he worked as a product designer and established and developed Freeplay's in-house design and product development capabilities. Philip Goodwin studied three-dimensional design at Cape Technikon, where he qualified as an Industrial Designer in 1995.

***Jenny Kotze, Business Development Manager (Africa)***

Jenny Kotze joined Freeplay in February 2005 as Business Development Manager for Africa, has a Bachelor in Social Science degree and her experience includes sales and marketing leadership positions, with an emphasis on business-to-business sales, management and market development. She is responsible for Freeplay's marketing strategy across the spectrum of African distribution, with a strong emphasis on market building for the FreeCharge mobile phone chargers.

***Sameer Hajee, Global Business Development Manager***

Sameer Hajee joined Freeplay in November 2005 as Global Business Development Manager of the Group. Prior to that he was with the private sector development at UNDP in Kenya. He has been involved with various start-ups in the semiconductor industry in Silicon Valley, as design engineer and manager. He has worked in the telecom industry as technical project manager for Afghanistan's largest mobile operator. Sameer Hajee graduated with an electrical engineering and management degree from the McMaster University in Canada, and MBA from INSEAD and has studied in Singapore, France and at the Wharton School of Business in the US.

***David Floyd, Business Development Manager (North America and Europe)***

David Floyd joined Freeplay in January 2006 as Business Development Manager for North America and Europe. Formerly a director with Motorola Inc, he has 12 years experience in the worldwide wireless telecommunications markets, from product development to sales and service. He has extensive key account, indirect sales management and business development experience throughout Europe, Middle East and Africa. David Floyd has a BSc in electrical & electronic engineering from the University of Plymouth and an MBA from the Open University.

## **8. BANKING FACILITIES**

The Company currently has an overdraft facility of up to US\$3.7 million available to it from HSBC. Of this the sum of US\$1.9 million is guaranteed by Rory Stear and Gordon Roddick, directors of Freeplay, and Vincent Mai, a shareholder of Freeplay. This facility reduces to US\$1.8 million on Admission. This facility expires on 14 May 2007.

Dixie has credit facilities of up to US\$11 million with PNC Bank, which is guaranteed by Barrett Corporation. Pursuant to the Acquisition Agreement, Barrett Corporation has agreed to maintain its guarantee in respect of this facility at least until 31 December 2007.

## **9. REASONS FOR THE PLACING**

The net proceeds of the Placing available to the Group after the expenses of the Proposals will be £2.54 million. This will be used to augment the Enlarged Group's working capital facilities in order to facilitate the Enlarged Group's growth plans allowing capacity to fulfil volume orders as received.

## **10. THE PLACING**

The Company is proposing to raise approximately £2.54 million (net of expenses) in the Placing by the issue of 11,397,358 New Ordinary Shares at the Placing Price. The Placing will represent approximately 22.89 per cent. of the Enlarged Issued Ordinary Share Capital. The aggregate proceeds of the New Ordinary Shares will be approximately £3.3 million before expenses, of which £2.54 million net of expenses will be receivable by the Company.

Pursuant to its obligations under the Placing Agreement, Charles Stanley has conditionally placed 11,067,358 new Ordinary Shares at the Placing Price with institutional and other investors. The Placing has not been underwritten by Charles Stanley or any other person.

The Placing Agreement is conditional, *inter alia*, upon Admission having taken place by not later than 8.30 a.m. on 20 July 2006 or such later time and date, being not later than 8.30 a.m. on 3 August 2006, as the Company and Charles Stanley may agree. The Placing Agreement contains provisions entitling Charles Stanley to terminate the Placing Agreement at any time prior to Admission in certain circumstances. If this right is exercised the Placing will lapse. Further details of the Placing Agreement are set out in paragraph 7.1(a) of Part VII of this document.

In addition the Company has conditionally placed 330,000 new Ordinary Shares at the Placing Price with certain of the Directors. Further details of this placing are set out in paragraphs 7.1(r) and (s) in Part VII of this document.

The Placing Shares will rank *pari passu* with the existing Ordinary Shares in issue in all respects including the right to receive all dividends declared or paid on the ordinary share capital of the Company on or after Admission.

On Admission the Company will have 49,801,868 Ordinary Shares in issue and a market capitalisation of approximately £14.44 million at the Placing Price. Application has been made to the London Stock

Exchange for the Enlarged Issued Ordinary Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence on 20 July 2006.

Application has been made for the Enlarged Issued Ordinary Share Capital to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place in CREST. It is expected that, subject to the satisfaction of the conditions of the Placing, the Placing Shares will be registered in the names of the placees subscribing for or acquiring them and issued or transferred either:

- (a) in certificated form, where the placee so elects, with the relevant share certificate expected to be despatched by post, at the placee's risk, by 28 July 2006; or
- (b) in CREST, where the placee so elects and only if the placee is a "system member" (as defined in the CREST Regulations) in relation to CREST, with delivery (to the designated CREST account) of the Placing Shares subscribed for or purchased expected to take place on 20 July 2006.

Pending despatch of definitive share certificates, the registrars will certify instruments of transfer against the register. No temporary documents of title will be issued.

## 11. LOCK-IN ARRANGEMENTS

Immediately following Admission, the Directors and the Proposed Directors will be interested, in aggregate, in 4,106,874 Ordinary Shares, representing approximately 8.25 per cent. of the Enlarged Issued Ordinary Share Capital. Under the terms of the Placing Agreement, which are described more fully in paragraph 7.1(a) of Part VII of this document, the Directors, Wild Investments Limited (in which certain Directors are interested), and the Proposed Directors have undertaken that, subject to certain exceptions, they will not sell or otherwise dispose of, or agree to sell or dispose of, any of their respective interests in the Ordinary Shares held immediately prior to Admission at any time prior to the first anniversary of Admission and until the second anniversary of Admission otherwise than through Charles Stanley for as long as it continues to act as the Company's Nominated Adviser. Sch 2 (f)

Immediately following Admission, the Barrett Corporation will be interested, in aggregate, in 17,559,131 Ordinary Shares, representing approximately 35.26 per cent. of the Enlarged Issued Ordinary Share Capital. Under the terms of the Acquisition Agreement, which is described more fully in paragraph 7.1(b) of Part VII of this document, the Barrett Corporation has undertaken that, subject to certain exceptions, it will not sell or otherwise dispose of, or agree to sell or dispose of, any of its interests in the Ordinary Shares held immediately following Admission at any time prior to the first anniversary of Admission and until the second anniversary of Admission otherwise than through Charles Stanley for as long as it continues to act as the Company's Nominated Adviser. 8.1(b)

## 12. THE CITY CODE

The City Code applies to companies which are registered and traded in the UK, Channel Islands and Isle of Man and which have their registered offices in the UK, Channel Islands and Isle of Man if any of their securities are admitted to trading on a regulated market in the UK or any stock exchange in the Channel Islands or the Isle of Man. In addition, the City Code applies to public companies, which have their registered offices in the UK, Channel Islands or the Isle of Man and which are considered by the Panel to have their place of central management and control in the UK Channel Islands or the Isle of Man.

Freeplay's registered office is in the UK and its Ordinary Shares are traded on AIM. Freeplay's operations and executive management are based in Maitland, South Africa and the majority of board meetings are conducted outside of the UK. Following Admission, the Enlarged Group's operations will be based in Maitland, South Africa and Greensboro, North Carolina, USA. In addition, the majority of Freeplay's and the Enlarged Group's Board members will not be resident or domiciled in the UK.

**Following discussion with the Panel, it has been established that as Freeplay does not, and will not following Admission, have its place of central management in the United Kingdom, the Channel Islands or the Isle of Man, the provisions of the City Code do not apply to Freeplay. Investors should therefore be aware that they will not be afforded the protections of the City Code.**

The Barrett Corporation will hold 35.26 per cent. of the Enlarged Issued Ordinary Share Capital following the completion of the Proposals and will therefore be able to increase its percentage

shareholding without triggering the requirement to make a general offer to Shareholders pursuant to Rule 9 of the City Code.

### **13. INTENTIONS OF THE BARRETT CORPORATION**

In the event that the Resolutions are passed at the EGM, the following appointments will be made to the Board. Harold Reiter will be appointed to the Board as Non-Executive Deputy Chairman and Peter Porteous will be appointed to the Board as Chief Executive. In addition, Edward Barrett, William Barrett and Stuart Kinney will be appointed to the Board as Non-Executive Directors.

Personal details of these new directors, are included in paragraph 6 of Part I of this document.

The Barrett Corporation has confirmed its intention that the business of the Company will be allowed to continue in substantially the same manner as at present, with no major changes other than those contemplated by the Proposals. The Barrett Corporation has also confirmed that the existing employment rights, including pension rights of all employees of the Group, will be maintained.

### **14. DIVIDEND POLICY**

The Board's current intention is to retain the Company's earnings in the foreseeable future to finance growth and further expansion. It is however, the Board's intention to pay dividends when, in the view of the Board, the Company has sufficient cash resources and distributable reserves. <sup>A1 20.7.1</sup>

### **15. SHARE SCHEMES AND MANAGEMENT INCENTIVE ARRANGEMENTS**

The Board believes that the retention of senior management will be a key factor for the success of the Enlarged Group. Consequently, the Company has adopted an unapproved share option scheme for its employees, details of which are set in paragraph 9 of Part VI of this document.

Under the rules of this Scheme the number of options over Ordinary Shares available for grant will not exceed 10 per cent. of the issued share capital of the Company. Options will be granted at market value and will have individually agreed performance targets and vesting periods, to be determined by the Remuneration Committee.

On Admission it is proposed to grant 3,610,635 options over Ordinary Shares to the Directors and Proposed Directors, further details of which are set out in paragraph 9 of Part VII of this document.

### **16. CORPORATE GOVERNANCE**

The Directors support high standards of corporate governance and confirm that, following Admission, they intend (having regard to the current stage of development of the Company) to comply, so far as practicable, with the Combined Code on Corporate Governance. <sup>A1 16.3</sup>

The Company has established an audit committee and a remuneration committee which will continue to operate following Admission with formerly delegated duties and responsibilities.

The audit committee currently comprises The Rt. Hon Baroness Chalker of Wallasey, Leonard Fassler and Gordon Roddick. After Admission the audit committee will comprise Harold Reiter, Leonard Fassler and Gordon Roddick. The audit committee is responsible for both ensuring that the financial performance of the Company is properly reported on and monitored and for reviewing the auditor's reports relating to accounts and internal control systems.

The remuneration committee currently comprises The Rt. Hon Baroness Chalker of Wallasey, Leonard Fassler and Gordon Roddick. After Admission the remuneration committee will comprise Stuart Kinney, Leonard Fassler and Gordon Roddick. The remuneration committee is responsible for the review and recommendation of the scale and structure of remuneration for senior management including the award of share options.

The Company has adopted a share dealing code for Directors and employees and will take proper steps to ensure compliance by the Board and relevant employees. The Company will take all reasonable steps to ensure compliance by the Directors and employees with the provisions of the AIM Rules relating to dealings in securities of the Company. <sup>A1 16.4</sup>

## 17. CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Directors have applied for the Enlarged Issued Share Capital (other than those new Ordinary Shares to be issued to US persons) to be admitted to CREST with effect from Admission and CREST has agreed to such Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the individual shareholders so wish. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

Due to restrictions under the Securities Act (New Brunswick) the New Ordinary Shares which are to be issued to Barrett Corporation and any Ordinary Shares to be issued to Peter Porteous must be held in certificated form and such Ordinary Shares will not be eligible for settlement through CREST.

## 18. EXTRAORDINARY GENERAL MEETING

A notice convening an Extraordinary General Meeting of the Company to be held at 11.00 a.m. on 17 July 2006 is set out at the end of this document. At the meeting, Shareholders will be asked to consider the Resolutions, which will be proposed as follows:

**Resolution 1:** this resolution is to increase the authorised share capital of the Company from £3,305,324.80 to £6,849,792.50 by the creation of 70,889,353 new Ordinary Shares ranking *pari passu* in all respects with the existing Ordinary Shares.

**Resolution 2:** in view of its size, the UK Listing Authority requires the Acquisition to be approved by Shareholders in a general meeting. The Company therefore seeks Shareholder approval for the Acquisition. A summary of the terms of the Acquisition Agreement is set out in paragraph 8.1(b) in Part VII of this document.

**Resolution 3:** the Company is seeking a general authority for the Directors to allot Ordinary Shares for the purposes of section 80 of the Act, which will replace all existing authorities under Section 80 of the Act.

**Resolution 4:** the Company is also seeking to disapply statutory pre-emption rights in relation to the authority conferred by Resolution 3 to allot Ordinary Shares. Following the passing of the resolution, the Directors will have the authority to allot 10.0 per cent of the Enlarged Issued Ordinary Share Capital, as if the pre-emption rights set out in section 89 of the Act did not apply to such allotment, in addition to the Shares to be allotted pursuant to the Acquisition, the Placing and the Scheme.

In addition, Section 142 of the Companies Act requires that, where the net assets of a public company are half or less of its called up share capital, the Directors shall convene an extraordinary general meeting for the purpose of considering whether any, and if so what, steps should be taken to deal with the situation. The Directors believe that Freeplay's net assets are half or less than half of its called up share capital and accordingly will consider at the meeting convened by this notice whether any, and if so what, steps should be taken to deal with the situation.

The Directors have no present intention of issuing any part of the unissued authorised share capital, other than in connection with the Scheme, the other options granted by the Company and referred to in paragraph 9 of Part VII of this document, the Placing and the Acquisition.

## 19. RELATED PARTY TRANSACTIONS

Rory Stear, Gordon Roddick, Andy Polansky and Leonard Fassler, Directors of the Company, are subscribing for 1,000,000, 1,200,000, 100,000 and 230,000 Ordinary Shares, respectively, under the Placing. Peter Porteous, a Proposed Director, is subscribing for 100,000 Ordinary Shares under the Placing. In addition, Leonard Fassler, Gordon Roddick and Andy Polansky are subscribing for 51,724, 51,724, and 20,689 new Ordinary Shares, respectively, at the Placing Price relating to accrued but unpaid non-executive directorship fees of £15,000, £15,000 and £6,000 respectively.

The subscription by certain of the Directors and the Proposed Director for new Ordinary Shares is regarded as a related party transaction under the AIM Rules. In the opinion of the independent directors, having consulted with Charles Stanley, the subscription by certain of the Directors and the Proposed Director is fair and reasonable as far as Shareholders are concerned.

## **20. IRREVOCABLE UNDERTAKINGS**

The Directors who own or are interested in 4,394,404 Ordinary Shares representing approximately 21.2 per cent. of Existing Ordinary Shares of the Company have irrevocably undertaken to vote in favour of the Resolutions to be proposed at the EGM in respect of their total holdings.

## **21. ACTION TO BE TAKEN**

A Form of Proxy is enclosed for use by Shareholders at the EGM. Whether or not Shareholders intend to be present at the EGM, Shareholders are urged to complete, sign and return the Form of Proxy to the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible but in any event so as to arrive no later than 11.00 a.m. on 15 July 2006. The completion and return of the Form of Proxy will not preclude Shareholders from attending the EGM and voting in person should they wish to do so. Accordingly, whether or not Shareholders intend to attend the EGM in person, they are urged to complete and return the Form of Proxy as soon as possible.

## **22. TAXATION**

Your attention is drawn to the taxation information set out in paragraph 14 of Part VII of this document.

The Directors consider that the Company operates as a trading group and accordingly should qualify eligible investors for business asset taper relief. Whilst the Directors intend to continue to operate the Company in this way, there is no assurance that the Inland Revenue will regard the Company as such or will continue to do so.

**If you are in any doubt as to your tax position you should consult your own independent financial adviser.**

## **23. FURTHER INFORMATION**

Your attention is drawn to the further information set out in Parts II, III, IV, V, VI and VII of this document. You are advised to read the whole of this document rather than relying on the summary information.

## **24. RECOMMENDATION**

**The Directors consider the Proposals to be proposed at the Extraordinary General Meeting, are fair and reasonable and in the best interests of Shareholders as a whole. Accordingly, the Board unanimously recommend that Shareholders vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting, as they have undertaken to do in respect of their own beneficial holdings.**

Yours faithfully

Rory Stear  
*Chairman and Chief Executive*

## PART II

### RISK FACTORS

The investment described in this document may not be suitable for all recipients of this document. <sup>A1.4</sup> Prospective investors are advised to consult an investment adviser authorised under the Financial Services and Markets Act 2000, who specialises in investments of this kind, before making any decision. A prospective investor should consider carefully whether an investment in the Company is suitable in the light of his personal circumstances and the financial resources available to him.

The Directors consider that the factors and risks described below should be carefully considered, together with all other information contained in this document.

#### RISK FACTORS ASSOCIATED WITH FREEPLAY

##### Technology

Whilst Freeplay benefits from both registered and unregistered intellectual property rights (see paragraph 16(i) of Part VII of this document) there are a number of outstanding applications for patents and trade marks. There is no guarantee that such applications will be granted. Furthermore, if patent protection in countries in which the Company's applications are not yet registered is limited, this may provide scope for potential competitors to emerge in those countries. This in turn may impact the Group's competitive advantages. Although the Directors believe Freeplay's technology is amongst the most advanced in the industry, it may face competition from technologies currently being developed or to be developed in the future. No assurance is given that the Group will develop products which are capable of being protected or that any protection gained will be sufficiently broad in scope to protect the Group's IPR and exclude competitors from similar technology.

##### New Products

The Group's strategy is based on assumptions concerning the launch of future products which, on the basis of the research to date, the Directors believe to be reasonable but which are subject to uncertainty and variation.

##### Competition

There can be no guarantee that the Group's competitors will not offer superior products to the market, although the Group's registered IPR provides certain protection. Current competitors in the radio market, such as Sony, Aiwa, Philips, Sun-mate and Grundig have greater financial, marketing, operational and technological resources than Freeplay.

##### Market

Whilst the Directors believe that the market for the Group's products will grow, particularly in the developing world, there can be no guarantee that this market will develop as they envisage or that donor funding will continue to be forthcoming.

#### RISK FACTORS ASSOCIATED WITH DIXIE

##### Product Lines

Some of Dixie's mature product lines are governed by distribution agreements with short terms (one year or less) and in some cases formal distribution agreements do not exist. Whilst Dixie is not aware of any pending changes in distribution relationships there can be no guarantee of the duration of these distribution relationships.

**Market**

While the Directors believe that the market for Dixie's products will grow, a number of the product lines are weather dependent and there can be no guarantee that this market will develop as they envisage.

**Competition**

There can be no guarantee that Dixie's competitors will not offer superior products to the market or that competitive distributors will not displace some existing product lines.

**RISK FACTORS ASSOCIATED WITH THE ENLARGED GROUP****Promotion Costs**

The Group may need to commit greater resources to marketing and promoting its products than has been budgeted.

**Further Funding**

Given uncertainty noted above regarding new product launches, competitor activity, market conditions and promotion costs, it is possible that the Group may have resource constraints on its ability to achieve its stated objectives. There is no certainty that the Company will be able to raise further funds at a future date.

**Attraction and Retention of Key Employees**

The future success of the Group depends partially on the expertise of the Directors and certain key employees. The loss of key personnel and the inability to recruit further key personnel could have an adverse effect on the Group's future through impairing the day to day running of the Group and its ability to develop future products.

**The Company's Objectives May Not Be Fulfilled**

The value of an investment in Freeplay is dependent upon the Group achieving the aims set out in this document. Whilst the Directors are optimistic about the Group's prospects, there is no certainty that the Group will achieve its aims.

**Marketability**

It may be difficult for investors to sell their Ordinary Shares and they may realise less than, or lose all of, their investment. The Ordinary Shares may not be suitable for short-term investment. The Ordinary Shares will not be quoted on the Official List or any other recognised investment exchange other than AIM. Investments and shares traded on AIM traditionally carry a higher degree of risk than investments and shares quoted on the Official List. The market price of the Ordinary Shares may not reflect the underlying value of the Group's net assets.

**Share Price Volatility and Liquidity**

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

**Suitability**

The investment described in this document may not be suitable for all those who receive it. Before making a final decision investors in any doubt are advised to consult an investment advisor authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

**Non-applicability of the City Code**

The Company as currently constituted and managed will not be subject to the Code. The Code applies to public companies listed on a market which is not a regulated market, such as AIM, whose central management resides in the UK, the Channel Islands or the Isle of Man. The Takeover Panel has ruled that the central management of the Company does not reside in the UK, the Channel Islands or the Isle of Man and as such the Code does not apply to the Company. The articles of association of the Company do not contain provisions similar to the requirements of the Code and it is not currently intended to adopt such provisions in the articles of association of the Company.

A takeover offer made in respect of the Company will not be regulated by the rules of the Code. In addition, the rules of the Code relating to mandatory offers will not apply to the Company. As a result, a shareholder of the Company may acquire shares in the Company carrying 30 per cent. or more of the voting rights of the Company without being required to make a mandatory offer (as would be required under Rule 9 of the Code if the Code were applicable to the Company). In addition, a shareholder of the Company, and persons acting in concert with that shareholder, who holds between 30 and 50 per cent. of the voting rights of the Company and who acquires additional voting rights will not be required to make a mandatory offer (as would be required under Rule 9 of the Code if the Code were applicable to the Company).

**Forward Looking Statements**

This document contains forward looking statements, including, without limitation, statements containing the words “believes”, “anticipates”, “expects” and similar expressions. Such forward looking statements involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Enlarged Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed above. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. Other than is required by the AIM Rules the Company disclaims any obligation to update any such forward looking statements in this prospectus to reflect future events or developments.

## **PART III**

### **FINANCIAL INFORMATION ON DIXIE**

The historical financial information for Dixie is set out in Section A of this Part III. This financial information comprises information for Dixie for the years ended 31 December 2003, 2004 and 2005. This financial information does not comprise statutory accounts within the meaning of section 240 of the Companies Act.

The Directors are required to prepare the financial information in a form consistent with that which will be adopted in the Company's next published annual financial statements having regard to the accounting standards and policies and legislation applicable to such annual financial statements. In accordance with the legislation applicable within the United Kingdom, the financial information is required to give a true and fair view of the state of affairs of Dixie for that period. In preparing that financial information, the Directors are required to:

- a) select suitable accounting policies and apply them consistently;
- b) make judgements and estimates that are reasonable and prudent; and
- c) prepare the financial information on the going concern basis unless it is inappropriate to presume that Dixie will continue in business.

Section B of this Part III sets out a report from Baker Tilly, the Reporting Accountants, required by paragraph 20.1 of Annex I of the AIM Rules and given for the purpose of complying with that paragraph and for no other purpose.

**SECTION A**

**FINANCIAL INFORMATION RELATING TO DIXIE SALES COMPANY INC**

**CONSOLIDATED PROFIT AND LOSS ACCOUNTS**

	<i>Notes</i>	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
<b>Turnover: Dixie and share of joint venture</b>		36,975	35,318	40,622
<b>Less: share of joint venture's turnover</b>		—	—	(109)
<b>Dixie Turnover</b>		36,975	35,318	40,513
Cost of sales		(26,193)	(24,689)	(27,770)
<b>Gross profit</b>		10,782	10,629	12,743
Administration costs		(10,609)	(10,169)	(11,657)
Other income	3	79	61	150
<b>Operating profit before Joint Venture</b>		252	521	1,236
Share of Joint Venture loss		—	—	(125)
<b>Operating profit after Joint Venture</b>	4	252	521	1,111
Interest receivable	6	35	17	18
Interest payable	7	(300)	(332)	(452)
<b>(Loss)/profit on ordinary activities before taxation</b>		(13)	206	677
Taxation on profit on ordinary activities	8	(57)	(61)	(386)
<b>(Loss)/profit on ordinary activities after taxation</b>		(70)	145	291

Dixie's interest in the joint venture was acquired in the year ended 31 December 2005.

All operations are continuing.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

## CONSOLIDATED BALANCE SHEETS

	<i>Notes</i>	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
<b>Fixed assets</b>				
Goodwill	9	12	10	8
Tangible assets	10	1,145	976	972
Investment in Joint Venture	11			–
Share of gross assets		–	–	103
Share of gross liabilities		–	–	(78)
		<u>1,157</u>	<u>986</u>	<u>1,005</u>
<b>Current assets</b>				
Stocks	12	6,350	8,626	10,655
Debtors	13	3,820	4,865	6,412
Cash		217	98	256
		<u>10,387</u>	<u>13,589</u>	<u>17,323</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(7,513)</u>	<u>(10,502)</u>	<u>(14,064)</u>
<b>Net current assets</b>		<u>2,874</u>	<u>3,087</u>	<u>3,259</u>
<b>Total assets less current liabilities</b>		4,031	4,073	4,264
<b>Creditors: amounts falling due after more than one year</b>	15	(401)	(283)	(183)
<b>Provisions for liabilities and charges</b>	19	(130)	(145)	(145)
<b>Net assets</b>		<u>3,500</u>	<u>3,645</u>	<u>3,936</u>
<b>Represented by:</b>				
Called up equity share capital	21	10	10	10
Share premium account	22	1	1	1
Profit and loss account	23	3,489	3,634	3,925
		<u>3,500</u>	<u>3,645</u>	<u>3,936</u>

## CONSOLIDATED CASH FLOW STATEMENTS

	<i>Notes</i>	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
<b>Net cash (outflow)/inflow from operating activities</b>	25(a)	(1,984)	163	(741)
<b>Returns on investments and servicing of finance</b>				
Interest received		–	–	–
Interest paid		(305)	(323)	(431)
		<u>(305)</u>	<u>(323)</u>	<u>(431)</u>
<b>Taxation</b>		(89)	8	(297)
<b>Capital expenditure and financial investment</b>				
Proceeds from sale of tangible fixed asset sales		–	15	6
Purchase of tangible fixed assets		(275)	(55)	(101)
Investment in Joint Venture		–	–	(150)
		<u>(275)</u>	<u>(40)</u>	<u>(245)</u>
Net cash outflow before finance		(2,653)	(192)	(1,714)
<b>Financing</b>				
Bank loans received		150	–	–
Bank loan repayments		(101)	(128)	(102)
Other loan repayments		(51)	(52)	(3)
Finance lease repayments		(59)	(50)	(79)
		<u>(61)</u>	<u>(230)</u>	<u>(184)</u>
(Decrease) in cash	25(b) &(c)	<u>(2,714)</u>	<u>(422)</u>	<u>(1,898)</u>

## NOTES TO THE FINANCIAL INFORMATION

### 1. Accounting policies

The principal accounting policies, which have been consistently applied in the financial information of Dixie throughout the period under review, are as follows:

#### *Basis of accounting and reporting*

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. The financial information is presented in United States of America Dollars (“\$”), as this is considered by the directors to be Dixie’s functional currency.

The financial information incorporates the financial information relating to Mower MD, a joint venture company incorporated during the year ended 31 December 2005.

#### *Intangible fixed assets and amortisation*

Goodwill is capitalised and amortised over its estimated useful life (estimated at 15 years) on a straight-line basis.

#### *Tangible fixed assets*

Tangible fixed assets are stated at historical cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value over its estimated useful life as follows:

Leasehold improvements	Straight-line over 7 to 40 years
Office and warehouse machinery	Straight-line over 5 to 12 years
Computers	Straight-line over 3 to 5 years
Vehicles	Straight-line over 5 years

#### *Stocks*

Stocks are valued at the lower of cost and net realisable value after making due allowances for obsolete and slow moving items.

#### *Leasing and hire purchase commitments*

Assets held under finance lease and hire purchase contracts are capitalised and disclosed under tangible fixed assets at fair value. The capital element of the future payments is treated as a liability and the interest charged to the profit and loss account.

All other leases are “operating leases” and the annual rentals are charged to profit and loss on a straight line basis over the lease term.

#### *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between Dixie’s taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are only recognised to the extent at the balance sheet that there recovery is more likely than not in the foreseeable future.

***Pensions contributions***

Dixie operates a defined contribution pension scheme for certain employees. The cost of the contributions is charged to the profit and loss account as incurred.

***Turnover***

Turnover represents the total invoice value, excluding sales taxes, of goods sold and services rendered during each year.

***Financial Instruments***

Financial instruments and their derivatives are categorised as held for trading or held as hedges.

The fair value of all instruments held for trading is recognised in the balance sheet and all unrealised profits and losses are taken to operating profit.

All hedging instruments are matched with their underlying hedged item. Each instrument's gain or loss is brought into the profit and loss account and its fair value into the balance sheet, at the same time and in the same place, as is the matched underlying asset, liability, income or cost. For foreign exchange and commodity instruments this will be in the operating profit matched against the relevant purchase or sale, and for interest rate instruments within interest payable or receivable over the life of the instrument or relevant interest period. The profit or loss on an instrument may be deferred if the hedged transaction is expected to take place or would normally be accounted for in a future period.

Changes in the fair value of most financial instruments or the underlying hedged item are not recognised in the profit and loss account.

All premiums or fees, paid or received, in respect of a financial instrument are accounted for over the life of the matched underlying asset, liability, income or cost, even if the instrument has been sold. If the matched underlying asset, liability, income or cost ceases to exist, or is no longer considered likely to exist in the future, the hedging instrument is sold. Any profit or loss on the sale is recognised in the profit and loss account as part of operating profit.

**2. Segmental reporting**

The Directors intend to report using the following business segments in the Enlarged Group's next financial statements:

Analysis by class of business: 'Freeplay sales' and 'Other sales'  
 Geographical analysis by destination: UK, Europe, North America, Rest of the World

In the period under review Freeplay sales through Dixie were immaterial to the results of that company and all of Dixie's sales were in North America.

**3. Other operating income**

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Rent receivable	–	–	34
Other income	79	61	116
	<u>79</u>	<u>61</u>	<u>150</u>

#### 4. Operating profit/(loss)

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Operating profit is stated after charging/(crediting):			
Amortisation of goodwill	1	2	2
Depreciation of owned fixed assets	283	246	153
Depreciation of assets held under hire purchase agreements	36	50	68
Loss/(profit) on disposal of tangible assets	–	(6)	(1)
Foreign exchange differences	–	–	9
Auditor's remuneration			
- for audit services	57	46	54
- for tax compliance services	11	8	10
- for tax advisory services	3	3	3
Total auditor's remuneration	71	57	67
Operating lease costs:			
- Land and buildings	881	937	904
- Office equipment	278	302	367
- Motor vehicles	123	126	119
Total operating lease costs	1,282	1,365	1,390

#### 5. Directors and employees

The average number of person (including directors and officers) employed by Dixie was:

	<i>Year ended 31 Dec 2003 Number</i>	<i>Year ended 31 Dec 2004 Number</i>	<i>Year ended 31 Dec 2005 Number</i>
Sales	20	20	15
Warehouse	57	46	63
Customer service	71	47	85
Administration	27	25	22
	175	138	185

Costs in respect of these employees were:

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Wages and salaries	5,568	5,170	5,953
Social security costs	443	422	492
Pensions costs	47	40	–
	<u>6,058</u>	<u>5,632</u>	<u>6,445</u>

Directors' and officers' emoluments included above are:

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Remuneration	330	361	567
Payroll taxes	17	18	26
Pension contributions	5	5	4
Benefits	16	25	33
	<u>368</u>	<u>409</u>	<u>630</u>

Highest paid director or officer	247	213	164
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	<i>Number</i>	<i>Number</i>	<i>Number</i>
Number of directors and officers accruing retirement benefits under a money purchase scheme	2	2	2

#### 6. Interest receivable and similar income

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Related party loans: Barrett Corporation	35	17	18
	<u>35</u>	<u>17</u>	<u>18</u>

#### 7. Interest payable and similar charges

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Bank overdraft	254	272	426
Bank loans	30	29	16
Other loans	7	24	–
Finance leases	9	7	10
	<u>300</u>	<u>332</u>	<u>452</u>

## 8. Taxation

### (a) Analysis of charge in period:

	<i>Year ended 31Dec 2003 \$'000</i>	<i>Year ended 31Dec 2004 \$'000</i>	<i>Year ended 31Dec 2005 \$'000</i>
Based on the result for the year			
US Income taxes	5	73	358
Adjustment in respect of earlier years	2	(27)	28
	<u>7</u>	<u>46</u>	<u>386</u>
Current tax charge for the year (note 8b)	7	46	386
Deferred taxation (note 19)	50	15	–
	<u>57</u>	<u>61</u>	<u>386</u>
Tax on profit on ordinary activities	<u><u>57</u></u>	<u><u>61</u></u>	<u><u>386</u></u>

### (b) Factors affecting tax charge for period:

	<i>Year ended 31Dec 2003 \$'000</i>	<i>Year ended 31Dec 2004 \$'000</i>	<i>Year ended 31Dec 2005 \$'000</i>
Profit on ordinary activities before tax	<u>(13)</u>	<u>206</u>	<u>677</u>
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax of 38% (2004: 43%; 2003: 43%)	(6)	104	257
Share of Joint Venture loss	–	–	47
Other non-deductible expenses	8	8	12
Tax depreciation	(14)	4	3
Group relief	(18)	(15)	(15)
Other timing differences	(6)	7	25
Smaller companies tax rates	–	(17)	–
Effect of differences between UK and US GAAP	41	(3)	(29)
	<u>5</u>	<u>73</u>	<u>358</u>
US Income Taxes	5	73	358
Under/(over) provision in prior years	2	(27)	28
	<u>7</u>	<u>46</u>	<u>386</u>
Current tax charge for the year (note 8(a))	<u><u>7</u></u>	<u><u>46</u></u>	<u><u>386</u></u>

## 9. Intangible fixed assets

	<i>Goodwill</i> \$'000	<i>Total</i> \$'000
At 1 January 2003, 31 December 2003, 31 December 2004 and 31 December 2005	<u>25</u>	<u>25</u>
<b>Amortisation</b>		
At 1 January 2003	12	12
Charge for the period	<u>1</u>	<u>1</u>
At December 2003	13	13
Charge for the year	<u>2</u>	<u>2</u>
At December 2004	15	15
Charge for the year	<u>2</u>	<u>2</u>
At December 2005	<u>17</u>	<u>17</u>
<b>Net book value</b>		
As at 31 December 2003	<u>12</u>	<u>12</u>
As at 31 December 2004	<u>10</u>	<u>10</u>
As at 31 December 2005	<u>8</u>	<u>8</u>

## 10. Tangible fixed assets

	<i>Leasehold property</i> \$'000	<i>Office &amp; warehouse equipment</i> \$'000	<i>Computers</i> \$'000	<i>Vehicles</i> \$'000	<i>Total</i> \$'000
<b>Cost or valuation</b>					
At 1 January 2003	716	2,266	547	49	3,578
Additions	41	127	153	–	321
Disposals	<u>–</u>	<u>(200)</u>	<u>(59)</u>	<u>–</u>	<u>(259)</u>
At 31 December 2003	757	2,193	641	49	3,640
Additions	–	21	115	–	136
Disposals	<u>–</u>	<u>–</u>	<u>(2)</u>	<u>(36)</u>	<u>(38)</u>
At 31 December 2004	757	2,214	754	13	3,738
Additions	6	55	161	–	222
Disposals	<u>–</u>	<u>(7)</u>	<u>–</u>	<u>–</u>	<u>(7)</u>
At 31 December 2005	<u>763</u>	<u>2,262</u>	<u>915</u>	<u>13</u>	<u>3,953</u>

## Depreciation

At 1 January 2003	245	1,875	292	23	2,435
Charge for the year	38	149	122	10	319
Disposals	—	(200)	(59)	—	(259)
At 31 December 2003	283	1,824	355	33	2,495
Charge for the year	37	114	139	6	296
Disposals	—	—	(2)	(27)	(29)
At 31 December 2004	320	1,938	492	12	2,762
Charge for the year	29	61	130	1	221
Disposals	—	(2)	—	—	(2)
At 31 December 2005	349	1,997	622	13	2,981

## Net book value

At 31 December 2003	474	369	286	16	1,145
At 31 December 2004	437	276	262	1	976
At 31 December 2005	414	265	293	—	972

The net book value of fixed assets held under finance leases or hire purchase contracts comprised:

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Warehouse equipment	46	32	55
Computers	85	130	144
	131	162	199

## 11. Investments

Details of investments, which are owned directly by Dixie Sales Company Inc at 31 December 2005, are:

<i>Name of Joint Venture</i>	<i>Class of Holding</i>	<i>Proportion held directly</i>	<i>Nature of business</i>
Mower MD South East Inc	Common Stock	50%	Repairs and warranty claims for lawn equipment

Mower MD South East Inc. is incorporated in Delaware, USA.

## 12. Stock

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Stock held for resale	6,350	8,626	10,655
	6,350	8,626	10,655

### 13. Debtors

	<i>As at</i> <i>31 Dec</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 Dec</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>31 Dec</i> <i>2005</i> <i>\$'000</i>
Trade debtors	2,997	3,931	5,098
Amounts owed by group undertakings (note 28)	503	658	1,119
Other debtors	86	84	113
Taxation	81	27	–
Prepayments and accrued income	153	165	82
	<u>3,820</u>	<u>4,865</u>	<u>6,412</u>

Included within debtors are the following amounts receivable after more than one year:

Amounts owed by group undertakings	498	636	832
Other debtors	75	78	83
	<u>573</u>	<u>714</u>	<u>915</u>

### 14. Creditors: Amounts falling due within one year

	<i>As at</i> <i>31 Dec</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 Dec</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>31 Dec</i> <i>2005</i> <i>\$'000</i>
Bank loans and overdrafts	5,558	5,867	7,942
Other loans (note 17)	51	3	–
Trade creditors	1,665	4,231	5,359
Hire purchase agreements	43	54	75
Taxation	–	–	62
Other taxes and social security	–	–	17
Deferred income	9	–	16
Accruals	187	347	593
	<u>7,513</u>	<u>10,502</u>	<u>14,064</u>

The bank overdraft is secured by an intercreditor agreement whereby the lender shares a first lien on substantially all stocks and debtors and all equipment. As at 31 December 2005, the maximum funding available under this agreement was \$9 million (2004 and 2003 - \$10 million). Under this agreement, a maximum of \$4million (2004 - \$4 million; 2003 - \$4 million) is guaranteed by Dixie's ultimate parent company, Barrett Corporation.

**15. Creditors: Amounts falling due after more than one year**

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Bank loans	362	228	107
Other loans (note 17)	4	–	–
Hire purchase agreements	35	55	76
	<u>401</u>	<u>283</u>	<u>183</u>

**16. Creditors – maturity of loans and overdrafts**

Creditors include bank loans, which are due for repayment as follows:

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
In one year or less or on demand	117	123	142
In more than one year but not more than two years	123	129	100
In more than two years but not more than five years	239	99	7
	<u>479</u>	<u>351</u>	<u>249</u>

Bank loans are secured by a first lien security interest in the furnishings, fixtures, and equipment of Dixie. Amounts due under these loans are guaranteed by the Barrett Corporation. The loan terms are:

Loan 1 – Monthly instalments of \$8,673; interest is charged at the bank prime rate plus 0.5 per cent.

Loan 2 – Monthly instalments of \$2,864; interest is charged at the bank prime rate plus 0.5 per cent.

**17. Other loans - maturity**

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Other loans comprise:			
Compensation agreement	43	3	–
Loan from former shareholder	12	–	–
	<u>55</u>	<u>3</u>	<u>–</u>

The loans were due for repayment as follows:

Repayable in one year or less	51	3	–
Repayable in more than one year but not more than two years	4	–	–
	<u>55</u>	<u>3</u>	<u>–</u>

## 18. Commitments under hire purchase agreements

Future commitments under hire purchase agreements are as follows:

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Amounts payable within one year	50	61	84
Amounts payable between one and two years	29	40	62
Amounts payable between two and five years	10	21	18
	<u>89</u>	<u>122</u>	<u>164</u>
Less interest and finance charges relating to future periods	(11)	(13)	(13)
	<u>78</u>	<u>109</u>	<u>151</u>
Hire purchase agreements are analysed as follows:			
Current obligations	43	54	75
Non-current obligations	35	55	76
	<u>78</u>	<u>109</u>	<u>151</u>

Hire purchase agreements are secured on the assets to which they relate.

## 19. Provisions for liabilities and charges

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Deferred taxation	130	145	145
	<u>130</u>	<u>145</u>	<u>145</u>

### Deferred taxation

The movement in the deferred taxation provision during the year was:

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Provision brought forward	80	130	145
Movement in the period /year	50	15	—
Provision carried forward	<u>130</u>	<u>145</u>	<u>145</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of the excess of taxation allowances over depreciation on fixed assets.

## 20. Commitments under operating leases

Dixie had the following commitments under non-cancellable operating leases falling due within 12 months of each balance sheet date:

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
<b>Land and buildings</b>			
Expiring within one year	8	122	9
Expiring between one and five years	615	481	686
Expiring after five years	189	194	147
	<u>812</u>	<u>797</u>	<u>842</u>

<b>Other</b>			
Expiring within one year	15	4	15
Expiring between one and five years	357	361	386
	<u>372</u>	<u>365</u>	<u>401</u>

## 21. Share capital

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
<b>Authorised</b>			
1,500 shares of \$100 each common stock or preferred stock	<u>150</u>	<u>150</u>	<u>150</u>
<b>Allotted, called up and fully paid</b>			
96 shares of \$100 each common stock	<u>10</u>	<u>10</u>	<u>10</u>

## 22. Share premium account

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
At the beginning and end of the year	<u>1</u>	<u>1</u>	<u>1</u>

## 23. Profit and loss account

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
At the beginning of the year	3,559	3,489	3,634
(Loss)/profit for the financial year	(70)	145	291
At the end of the year	<u>3,489</u>	<u>3,634</u>	<u>3,925</u>

## 24. Reconciliation of movement in shareholders' funds

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
(Loss)/profit for the financial year	(70)	145	291
Other recognised gains and losses relating to the financial year	—	—	—
Net addition to/(reduction in) funds	(70)	145	291
Opening shareholder's equity funds	3,570	3,500	3,645
Closing shareholder's equity funds	3,500	3,645	3,936

## 25. Cashflows

### (a) Reconciliation of operating profit to net cash inflow from operating activities

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Operating (loss)/ profit	252	521	1,236
Amortisation of goodwill	1	2	2
Depreciation	319	296	221
Profit on disposal of fixed assets	—	(6)	(1)
(Increase) in stock	(526)	(2,276)	(2,029)
Decrease)/(increase) in debtors	181	(1,082)	(1,556)
(Decrease)/increase in creditors	(2,211)	2,708	1,386
Net cash (outflow)/inflow from operating activities	(1,984)	163	(741)

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

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
(Decrease)/increase in cash in the year	(183)	(119)	158
(Increase)/decrease in overdrafts in the year	(2,531)	(303)	(2,056)
	(2,714)	(422)	(1,898)
Cash flow in respect bank and other loans	2	180	105
Cash flow in respect of hire purchase agreements	(33)	(112)	(163)
Increase in net debt from cashflows	(2,745)	(354)	(1,956)
New hire purchase agreements	46	81	121
Movement in net debt during the year	(2,699)	(273)	(1,835)
Opening net debt	(3,137)	(5,836)	(6,109)
Closing net debt	(5,836)	(6,109)	(7,944)

**(c) Analysis of net debt**

	<i>Opening balance \$'000</i>	<i>Cash- flows \$'000</i>	<i>Other changes \$'000</i>	<i>Closing balance \$'000</i>
<b>At 1 January 2003</b>				
Cash at bank and in hand	400	(183)	–	217
Bank overdraft	(2,910)	(2,531)	–	(5,441)
	<u>(2,510)</u>	<u>(2,714)</u>	<u>–</u>	<u>(5,224)</u>
<b>Debt</b>				
Debts falling due within one year	(142)	(26)	–	(168)
Debts falling due after one year	(394)	28	–	(366)
Hire purchase	(91)	(33)	46	(78)
	<u>(3,137)</u>	<u>(2,745)</u>	<u>46</u>	<u>(5,836)</u>
<b>At 1 January 2004</b>				
Cash at bank and in hand	217	(119)	–	98
Bank overdraft	(5,441)	(303)	–	(5,744)
	<u>(5,224)</u>	<u>(422)</u>	<u>–</u>	<u>(5,646)</u>
<b>Debt</b>				
Debts falling due within one year	(168)	42	–	(126)
Debts falling due after one year	(366)	138	–	(228)
Hire purchase	(78)	(112)	81	(109)
	<u>(5,836)</u>	<u>(354)</u>	<u>81</u>	<u>(6,109)</u>
<b>At 1 January 2005</b>				
Cash at bank and in hand	98	158	–	256
Bank overdraft	(5,744)	(2,056)	–	(7,800)
	<u>(5,646)</u>	<u>(1,898)</u>	<u>–</u>	<u>(7,544)</u>
<b>Debt</b>				
Debts falling due within one year	(126)	(16)	–	(142)
Debts falling due after one year	(228)	121	–	(107)
Hire purchase	(109)	(163)	121	(151)
	<u>(6,109)</u>	<u>(1,956)</u>	<u>121</u>	<u>(7,944)</u>
<b>At 31 December 2005</b>				

## 26. Financial instruments

The financial instruments employed by Dixie other than short term debtors and creditors are used to fund its operations and comprise cash, short-term deposits, long-term loans and finance leases.

Dixie's policy during the years ended 31 December 2003, 2004 and 2005 was to place the majority of its cash on short term deposit with its bankers and to finance the purchase of any significant fixed assets through finance leases and secured loans.

Dixie's exposure to interest rate risk is limited to inter-company loans and finance leases which are typically fixed rate and its bank loans and cash deposits which are typically floating rate. As permitted by Financial Reporting Standard 13 the disclosures below exclude short-term debtors and creditors.

### Interest rate risk profile of financial assets

The interest rate profile of financial assets of Dixie at 31 December 2003, 2004 and 2005 was as follows:

	<i>Fixed Rate financial Assets \$'000</i>	<i>Floating Rate financial assets \$'000</i>	<i>Non- Interest bearing Asset \$'000</i>	<i>Total \$'000</i>
2003 US dollar	281	217	217	715
2004 US dollar	299	98	337	734
2005 US dollar	566	216	516	1,298
2005 Canadian dollar	—	40	—	40

The weighted average interest rate on fixed rate financial assets as at 31 December 2005 was 7.0% (2004: 7.0%; 2003: 7.0%). The fixed rate and non-interest bearing financial assets are due from group entities (see note 28) and are payable on demand.

### Interest rate risk profile of financial liabilities

The interest rate profile of financial liabilities of the Dixie as at 31 December 2003, 2004 and 2005 was as follows:

	<i>Fixed rate financial liabilities \$'000</i>	<i>Floating rate financial liabilities \$'000</i>	<i>Total \$'000</i>
2003 US dollar	133	5,920	6,053
2004 US dollar	112	6,095	6,207
2005 US dollar	151	8,049	8,200

The weighted average interest rate on fixed rate financial liabilities as at 31 December 2005 was 6.8% (2004: 6.4%; 2003: 7.7%).

The weighted average period to maturity of fixed rate financial liabilities at 31 December 2005 was 24.9 months (2004: 25.8 months; 2003: 19.1 months).

The fixed rate financial liabilities as at 31 December 2005 were for obligations under finance leases and hire purchase and a secured bank loan.

### **Maturity of financial liabilities**

The maturity profiles of the Dixie's financial liabilities as at 31 December 2003, 2004 and 2005 were as follows:

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Payable within one year	5,652	5,924	8,017
Payable between one and two years	148	166	158
Payable between two and five years	253	117	25

### **Currency exposures**

The table below shows the Dixie's currency exposures that give rise to net currency gains and losses recognised in the profit and loss account. Such exposures comprise of monetary assets and liabilities of Dixie that are not denominated in the operating currency of the operating unit involved.

	<i>Canadian dollar \$'000</i>	<i>Total \$'000</i>
2003 US dollar	—	—
2004 US dollar	—	—
2005 US dollar	40	40

### **Borrowing facility**

At 31 December 2005 the Company had an overdraft facility of \$9,000,000 of which \$1,000,000 is set aside for certain letters of credit.

### **Fair values of financial assets and financial liabilities**

The fair values, based upon the market value or discounted cash flows of the financial instruments detailed above were not materially different from their book values.

## **27. Contingent liabilities**

Dixie is a guarantor of a loan of \$3,844,000 that is an obligation of Dixie's ultimate parent company, Barrett Corporation Inc. The loan is secured over all of Dixie's assets. As at 31 December 2005, Barrett Corporation is either in compliance with or has received waivers for all covenants contained in the agreements.

Dixie is also the guarantor of certain loans owed by its immediate parent company, Barrett Dixie Sales Inc., amounting to \$526,111, that are payable to former shareholders of Dixie. The loans are secured over all of Dixie's assets and are subordinated to the security interests held by Dixie's bankers.

## 28. Related party transactions

Amounts owed by related parties at the balance sheet dates were as follows:

		<i>As at 31 December</i>		
		<i>2003</i>	<i>2004</i>	<i>2005</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Barrett Corporation	Ultimate parent undertaking	281	299	566
Barrett Dixie Sales Inc	Group undertaking	217	337	516
Barrett Marketing Group Ltd	Group undertaking	–	8	37
Barrett Marketing Group Inc.	Group undertaking	5	5	–
Mower MD South East Inc	Joint venture	–	9	–
		<u>503</u>	<u>658</u>	<u>1,119</u>

The President of Dixie, J E Starmer Jr, was interested in rent paid by Dixie, both to him personally and to R & J Properties, a company of which he owns 50% of the share capital.

Transactions with related parties were as follows:

		<i>Year ended 31 December</i>		
		<i>2003</i>	<i>2004</i>	<i>2005</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
		<i>Paid to</i>	<i>received from</i>	
<b>Income</b>				
Service fee income	Barrett Marketing Group	6	20	17
Sale of goods	Barrett Marketing Group	–	30	–
Sale of goods	Mower MD South East	–	–	23
Interest receivable	Barrett Corporation	35	17	18
<b>Expense</b>				
Cost of sales recharged	Barrett Marketing Group	–	–	100
Purchases	Barrett Marketing Group	–	–	205
Admin costs recharged	Barrett Corporation	144	138	150
Admin costs recharged	Barrett Marketing Group	–	–	311
Management fees paid	Barrett Corporation	17	78	66
Rent paid	R & J Properties	382	390	397
Rent paid	J E Starmer Jr	6	16	17

During the year ended 31 December 2004, the following short term loans were advanced to Dixie by related parties at interest rates of 15% per annum:

		<i>Loan advanced</i>	<i>Date advanced</i>	<i>Date repaid</i>	<i>Interest paid</i>
		<i>\$'000</i>			<i>\$'000</i>
J E Starmer Jr	President	150	12 Jan 04	17 Jun 04	10
J E Starmer Jr	President	125	16 Feb 04	15 Jul 04	8
Pine Ridge Diversified Ltd	A Canadian company owned by P Porteous (CEO) and his wife	45	12 Jan 04	15 Jul 04	2
Mrs L Garrett	Chief Financial Officer	15	12 Jan 04	15 Jul 04	1
		<u>335</u>			<u>21</u>

**29. Control**

Throughout the period from 1 January 2003 to 31 December 2005, the ultimate controlling party was Barrett Corporation Inc, a company incorporated in Canada.

On completion of the acquisition of BMGI, which is conditional upon Admission, control will pass to the Company.

## SECTION B

### ACCOUNTANTS' REPORT ON DIXIE SALES COMPANY INC.

The following is the full text of a report on Dixie Sales Company Inc. from Baker Tilly, the Reporting Accountants, to the Directors of Freeplay Energy plc.

The Directors  
Freeplay Energy plc  
2 Stone Buildings  
Lincoln's Inn  
London  
WC2A 3TH



23 June 2006

Dear Sirs

#### **Financial Information on Dixie Sales Company Inc.**

We report on the financial information set out in Section A of Part III. This financial information has been prepared for inclusion in the Admission Document dated 23 June 2006 ("the Admission Document") of Freeplay Energy plc on the basis of the accounting policies set out in Note 1. This report is required by paragraph 20.1 of Annex I of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under the AIM rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement required by and given solely for the purposes of complying with paragraph 20.1 of Annex 1 of the AIM rules consenting to its inclusion in this Admission Document.

#### **Responsibilities**

As described in Section A of Part III, the directors of Freeplay Energy plc are responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information and in accordance with UK Financial Reporting Standards.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of 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 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 Admission Document, a true and fair view of the state of affairs of Dixie Sales Company Inc. as at the dates stated and of the profits and losses, cash flows and recognised gains and losses and changes in equity for the periods then ended.

**Declaration**

For the purposes of compliance with item 1.2 of Annex I of the AIM Rules and item 1.2 of Annex III of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Yours faithfully

**Baker Tilly**

Regulated for audit work by the Institute of Chartered Accountants of Scotland

## **PART IV**

### **FINANCIAL INFORMATION ON BMGI**

The historical financial information for the BMGI Group is set out in Section A of this Part IV. This financial information comprises information for the BMGI Group for the years ended 31 December 2003, 2004 and 2005. This financial information does not comprise statutory accounts within the meaning of section 240 of the Companies Act.

The Directors are required to prepare the financial information in a form consistent with that which will be adopted in the Company's next published annual financial statements having regard to the accounting standards and policies and legislation applicable to such annual financial statements. In accordance with the legislation applicable within the United Kingdom, the financial information is required to give a true and fair view of the state of affairs of the BMGI Group for that period. In preparing that financial information, the Directors are required to:

- (a) select suitable accounting policies and apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent; and
- (c) prepare the financial information on the going concern basis unless it is inappropriate to assume that the BMGI Group will continue in business.

Section B of this Part IV sets out a report from Baker Tilly, the Reporting Accountants, required by paragraph 20.1 of Annex I of the AIM Rules and given for the purpose of complying with that paragraph and for no other purpose.

## SECTION A

### FINANCIAL INFORMATION RELATING TO BARRETT MARKETING GROUP INC

#### CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	<i>Notes</i>	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
<b>Turnover: BMGI Group and share of joint venture</b>		38,924	36,407	42,239
<b>Less: share of joint venture's turnover</b>		–	–	(109)
<b>BMGI Group turnover</b>		38,924	36,407	42,130
Cost of sales		(27,769)	(25,778)	(29,384)
<b>Gross profit</b>		11,155	10,629	12,746
Total administrative expenses		(10,776)	(10,242)	(11,710)
Other operating income	3	79	61	150
<b>Operating profit before joint venture</b>	4	458	448	1,186
Share of joint venture loss		–	–	(125)
<b>Operating profit after joint venture</b>		458	448	1,061
Interest receivable	6	35	17	18
Interest payable and similar charges	7	(359)	(365)	(498)
<b>Profit on ordinary activities before taxation</b>		134	100	581
Taxation on profit on ordinary activities	8	(57)	(61)	(386)
Profit on ordinary activities after taxation		77	39	195
Minority interest – equity		29	(27)	(36)
<b>Retained profit for the financial year for the BMGI Group</b>		<u>106</u>	<u>12</u>	<u>159</u>

The Group's interest in the joint venture was acquired in the year ended 31 December 2005.

All of the Group's activities are continuing.

#### **Total recognised gains and losses**

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

## CONSOLIDATED BALANCE SHEETS

	<i>Notes</i>	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
<b>Fixed assets</b>				
Intangible assets	9	895	825	306
Tangible assets	10	1,156	982	975
Investment in Joint Venture	11			
Share of gross assets		–	–	103
Share of gross liabilities		–	–	(78)
		<u>2,051</u>	<u>1,807</u>	<u>1,306</u>
<b>Current assets</b>				
Stock	12	6,403	8,626	10,655
Debtors	13	4,062	4,888	6,234
Cash at bank and in hand		217	99	257
		<u>10,682</u>	<u>13,613</u>	<u>17,146</u>
<b>Creditors: Amounts falling due within one year</b>	14	<u>(10,364)</u>	<u>(13,197)</u>	<u>(16,795)</u>
<b>Net current assets</b>		<u>318</u>	<u>416</u>	<u>351</u>
<b>Total assets less current liabilities</b>		<u>2,369</u>	<u>2,223</u>	<u>1,657</u>
<b>Creditors: Amounts falling due after more than one year</b>	15	(1,009)	(809)	(1,090)
<b>Provisions for liabilities and charges</b>	19	(130)	(145)	(145)
		<u>1,230</u>	<u>1,269</u>	<u>422</u>
<b>Capital and reserves</b>				
Called up equity share capital	21	3	3	3
Profit and loss account	22	248	260	419
<b>Equity shareholder's funds</b>	23	251	263	422
Minority interest		979	1,006	–
		<u>1,230</u>	<u>1,269</u>	<u>422</u>

## CONSOLIDATED CASH FLOW STATEMENTS

	<i>Notes</i>	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
<b>Net cash (outflow)/inflow from operating activities</b>	24(a)	(1,829)	310	(543)
<b>Returns on investments and servicing of finance</b>				
Interest received		35	17	18
Interest paid		(359)	(365)	(498)
		<u>(324)</u>	<u>(348)</u>	<u>(480)</u>
<b>Taxation</b>		(89)	8	(297)
<b>Capital expenditure and financial investment</b>				
Proceeds from sale of tangible fixed asset sales		–	15	6
Purchase of tangible fixed assets		(321)	(136)	(222)
Investment in Joint Venture		–	–	(150)
Acquisition of remaining interest in Barrett Dixie Sales Inc		–	–	(570)
		<u>(321)</u>	<u>(121)</u>	<u>(936)</u>
Net cash outflow before finance		(2,563)	(151)	(2,256)
<b>Financing</b>				
Bank loans received/(repaid)		49	(128)	(102)
Other loans received/(repaid)		(232)	(134)	439
Finance leases received/(repaid)		(13)	31	21
		<u>(196)</u>	<u>(231)</u>	<u>358</u>
<b>(Decrease) in cash</b>	24(b)&(c)	<u><u>(2,759)</u></u>	<u><u>(382)</u></u>	<u><u>(1,898)</u></u>

## NOTES TO THE FINANCIAL INFORMATION

### 1. Accounting policies

The principal accounting policies, which have been consistently applied in the financial information of the BMGI Group throughout the period, are as follows:

#### *Basis of accounting and reporting*

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. The financial information is presented in United States of America Dollars (“\$”), as this is considered by the Directors to be the BMGI Group’s functional currency.

The financial information incorporates the financial information relating to Mower MD, a joint venture company incorporated during the year ended 31 December 2005.

#### *Basis of consolidation*

Acquisitions are accounted for under acquisition accounting rules. The results of subsidiaries sold or acquired are included in the combined and consolidated profit and loss account up to, or from, the date control passes.

All inter-company transactions are eliminated as part of the consolidation process.

#### *Intangible fixed assets and amortisation*

Goodwill is capitalised and amortised over its estimated useful life (estimated at 15 years) on a straight-line basis.

#### *Tangible fixed assets*

Tangible fixed assets are stated at historical cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value over its estimated useful life as follows:

Leasehold improvements	Straight-line over 7 to 40 years
Office and warehouse machinery	Straight-line over 5 to 12 years
Computers	Straight-line over 3 to 5 years
Vehicles	Straight-line over 5 years

#### *Stocks*

Stocks are valued at the lower of cost and net realisable value after making due allowances for obsolete and slow moving items.

#### *Leasing and hire purchase commitments*

Assets held under finance lease and hire purchase contracts are capitalised and disclosed under tangible fixed assets at fair value. The capital element of the future payments is treated as a liability and the interest charged to the profit and loss account.

All other leases are “operating leases” and the annual rentals are charged to profit and loss on a straight line basis over the lease term.

#### *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the BMGI Group’s taxable profits and its results as stated in the financial

statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are only recognised to the extent at the balance sheet that their recovery is more likely than not in the foreseeable future.

#### ***Pension contributions***

The BMGI Group operates a defined contribution pension scheme for certain employees. The cost of the contributions is charged to the profit and loss account as incurred.

#### ***Turnover***

Turnover represents the total invoice value, excluding sales taxes, of goods sold and services rendered during each year.

#### ***Financial Instruments***

Financial instruments and their derivatives are categorised as held for trading or held as hedges.

The fair value of all instruments held for trading is recognised in the balance sheet and all unrealised profits and losses are taken to operating profit.

All hedging instruments are matched with their underlying hedged item. Each instrument's gain or loss is brought into the profit and loss account and its fair value into the balance sheet, at the same time and in the same place, as is the matched underlying asset, liability, income or cost. For foreign exchange and commodity instruments this will be in the operating profit matched against the relevant purchase or sale, and for interest rate instruments within interest payable or receivable over the life of the instrument or relevant interest period. The profit or loss on an instrument may be deferred if the hedged transaction is expected to take place or would normally be accounted for in a future period.

Changes in the fair value of most financial instruments or the underlying hedged item are not recognised in the profit and loss account.

All premiums or fees, paid or received, in respect of a financial instrument are accounted for over the life of the matched underlying asset, liability, income or cost, even if the instrument has been sold. If the matched underlying asset, liability, income or cost ceases to exist, or is no longer considered likely to exist in the future, the hedging instrument is sold. Any profit or loss on the sale is recognised in the profit and loss account as part of operating profit

## **2. Segmental reporting**

The Directors intend to report using the following business segments in the Enlarged Group's next financial statements:

Analysis by class of business:	'Freeplay sales' and 'Other sales'
Geographical analysis by destination:	UK, Europe, North America, Rest of the World

In the period under review Freeplay sales through the BMGI Group were immaterial to the results of that Group and all of the BMGI Group's sales were in North America.

### 3. Other operating income

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Rent receivable	–	–	34
Other income	79	61	116
	<u>79</u>	<u>61</u>	<u>150</u>

### 4. Operating profit/(loss)

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Operating profit is stated after charging/(crediting):			
Amortisation of goodwill	52	53	43
Depreciation of owned fixed assets	289	251	156
Depreciation of assets held under hire purchase agreements	36	50	68
Loss/(profit) on disposal of tangible assets	–	(6)	(1)
Foreign exchange differences	–	–	9
Auditor's remuneration			
– for audit services	57	46	54
– for tax compliance services	11	8	10
– for tax advisory services	3	3	3
Total auditor's remuneration	<u>71</u>	<u>57</u>	<u>67</u>
Operating lease costs:			
– Land and buildings	881	937	904
– Office equipment	278	302	367
– Motor vehicles	123	126	119
Total operating lease costs	<u>1,282</u>	<u>1,365</u>	<u>1,390</u>

### 5. Directors and employees

The average number of persons (including directors and officers) employed by the BMGI Group was:

	<i>Year ended 31 Dec 2003 Number</i>	<i>Year ended 31 Dec 2004 Number</i>	<i>Year ended 31 Dec 2005 Number</i>
Sales	21	20	15
Warehouse	57	46	63
Customer service	71	47	85
Administration	27	25	22
	<u>176</u>	<u>138</u>	<u>185</u>

Costs in respect of these employees were:

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Wages and salaries	5,629	5,170	5,953
Social security costs	443	422	492
Pensions costs	47	40	–
	<u>6,119</u>	<u>5,632</u>	<u>6,445</u>

Directors' and officers' emoluments included above are:

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Remuneration	330	361	567
Payroll taxes	17	18	26
Pension contributions	5	5	4
Benefits	16	25	33
	<u>368</u>	<u>409</u>	<u>630</u>

Highest paid director or officer	<u>247</u>	<u>213</u>	<u>164</u>
----------------------------------	------------	------------	------------

	<i>Number</i>	<i>Number</i>	<i>Number</i>
Number of directors and officers accruing retirement benefits under a money purchase scheme	<u>2</u>	<u>2</u>	<u>2</u>

#### 6. Interest receivable and similar income

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Related party loans: Barrett Corporation	35	17	18
	<u>35</u>	<u>17</u>	<u>18</u>

#### 7. Interest payable and similar charges

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Bank overdraft	254	272	426
Bank loans	30	29	16
Other loans	66	57	46
Finance leases	9	7	10
	<u>359</u>	<u>365</u>	<u>498</u>

## 8. Taxation

### (a) Analysis of charge in period:

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
Based on the result for the year			
US Income taxes	5	73	358
Adjustment in respect of earlier years	2	(27)	28
	<u>7</u>	<u>46</u>	<u>386</u>
Current tax charge for the year (note 8(b))			
Deferred taxation (note 19)	50	15	–
	<u>57</u>	<u>61</u>	<u>386</u>

### (b) Factors affecting tax charge for period:

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
(Loss)/profit on ordinary activities before tax	134	100	581
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax of 38% (2004: 43%; 2003: 43%)	58	43	221
Share of Joint Venture loss	–	–	47
Other non-deductible expenses	8	8	12
Tax depreciation	(14)	4	3
Group (relief)/losses surrendered	(82)	31	79
Other timing differences	(6)	7	25
Smaller companies tax rates	–	(17)	–
Effect of differences between UK and US GAAP	41	(3)	(29)
	<u>5</u>	<u>73</u>	<u>358</u>
US Income Taxes			
Under/(over) provision in prior years	2	(27)	28
	<u>7</u>	<u>46</u>	<u>386</u>

## 9. Intangible fixed assets

	<i>Goodwill</i> <i>\$'000</i>
<b>Cost</b>	
At 1 January 2003, 31 December 2003, and 31 December 2004	1,048
Reduction on acquisition of minority interest in Barrett Dixie Sales Inc	<u>(472)</u>
<b>At December 2005</b>	<u><u>576</u></u>
<b>Amortisation</b>	
At 1 January 2003	84
Charge for the period	<u>69</u>
<b>At December 2003</b>	153
Charge for the year	<u>70</u>
<b>At December 2004</b>	223
Charge for the year	<u>47</u>
<b>At December 2005</b>	<u><u>270</u></u>
<b>Net Book Value</b>	
<b>As at 31 December 2003</b>	<u><u>895</u></u>
<b>As at 31 December 2004</b>	<u><u>825</u></u>
<b>As at 31 December 2005</b>	<u><u>306</u></u>

## 10. Tangible fixed assets

	<i>Leasehold property \$'000</i>	<i>Office &amp; warehouse equipment \$'000</i>	<i>Computers \$'000</i>	<i>Vehicles \$'000</i>	<i>Total \$'000</i>
<b>Cost or valuation</b>					
At 1 January 2003	722	2,282	560	76	3,640
Additions	41	127	153	–	321
Disposals	–	(200)	(59)	–	(259)
At 31 December 2003	763	2,209	654	76	3,702
Additions	–	21	115	–	136
Disposals	–	–	(2)	(36)	(38)
At 31 December 2004	763	2,230	767	40	3,800
Additions	6	55	161	–	222
Disposals	–	(7)	–	–	(7)
<b>At 31 December 2005</b>	<b>769</b>	<b>2,278</b>	<b>928</b>	<b>40</b>	<b>4,015</b>
<b>Depreciation</b>					
At 1 January 2003	246	1,885	301	48	2,480
Charge for the year	39	151	123	12	325
Disposals	–	(200)	(59)	–	(259)
At 31 December 2003	285	1,836	365	60	2,546
Charge for the year	38	116	141	6	301
Disposals	–	–	(2)	(27)	(29)
At 31 December 2004	323	1,952	504	39	2,818
Charge for the year	29	63	131	1	224
Disposals	–	(2)	–	–	(2)
At 31 December 2005	352	2,013	6,352	40	3,040
<b>Net Book Value</b>					
At 31 December 2003	478	373	289	16	1,156
At 31 December 2004	440	278	263	1	982
At 31 December 2005	417	265	293	–	975

The net book value of fixed assets held under finance leases or hire purchase contracts comprised:

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Warehouse equipment	46	32	55
Computers	85	130	144
	<u>131</u>	<u>162</u>	<u>199</u>

## 11. Investments

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
<b>Share of net assets of Joint Venture</b>			
Mower MD South East Inc			
Share of gross assets	–	–	103
Share of gross liabilities	–	–	(78)
	<u>–</u>	<u>–</u>	<u>25</u>
	<u>–</u>	<u>–</u>	<u>25</u>

Details of investments, which are owned directly by the BMGI Group at 31 December 2005, are:

<i>Name of Joint Venture</i>	<i>Class of Holding</i>	<i>Proportion held directly</i>	<i>Nature of business</i>
Barrett Dixie Sales Inc	Common Stock	100%	Holding company
Dixie Sales Company Inc	Common Stock	100%	Parts and wholesale distribution for the lawn and garden industry and other retail
Mower MD South East Inc	Common Stock	50%	Repairs and warranty claims for lawn equipment

Barrett Dixie Sales Inc and Dixie Sales Company Inc are incorporated in North Carolina, USA. Mower MD South East Inc. is incorporated in Delaware, USA.

On 9 August 2005 the BMGI Group acquired a minority interest of 25 per cent. of the common stock of Barrett Dixie Sales Inc., having previously owned the other 75 per cent. throughout the period. Consideration of \$570,000 was satisfied by a loan note of \$538,000, cash of \$20,000 and costs of \$12,000.

## 12. Stock

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Stock held for resale	6,403	8,626	10,655
	<u>6,403</u>	<u>8,626</u>	<u>10,655</u>
	<u>6,403</u>	<u>8,626</u>	<u>10,655</u>

### 13. Debtors

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Trade debtors	3,100	3,960	5,087
Amounts owed by group undertakings (note 27)	624	650	952
Other debtors	86	84	113
Taxation	81	27	–
Prepayments and accrued income	171	167	82
	<u>4,062</u>	<u>4,888</u>	<u>6,234</u>

Included within debtors are the following amounts receivable after more than one year:

Amounts owed by group undertakings	619	645	941
Other debtors	75	78	83
	<u>694</u>	<u>723</u>	<u>1,024</u>

### 14. Creditors: Amounts falling due within one year

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Bank loans and overdrafts	5,597	5,867	7,942
Other loans (note 17)	133	85	143
Amounts due to fellow group undertakings	2,646	2,557	2,588
Trade creditors	1,749	4,287	5,359
Hire purchase agreements	43	54	75
Taxation	–	–	62
Other taxes and social security	–	–	17
Deferred income	9	–	16
Accruals	187	347	593
	<u>10,364</u>	<u>13,197</u>	<u>16,795</u>

The bank overdraft is secured by an intercreditor agreement whereby the lender shares a first lien on substantially all stocks and debtors and all equipment. As at 31 December 2005, the maximum funding available under this agreement was \$9 million (2004 and 2003 – \$10 million). Under this agreement, a maximum of \$4 million (2004 – \$4 million; 2003 – \$4 million) is guaranteed by the Company's ultimate parent company, Barrett Corporation.

### 15. Creditors: Amounts falling due after more than one year

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Bank loans	362	228	107
Other loans (note 17)	612	526	907
Hire purchase agreements	35	55	76
	<u>1,009</u>	<u>809</u>	<u>1,090</u>

## 16. Creditors – maturity of loans and overdrafts

Creditors include bank loans, which are due for repayment as follows:

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
In one year or less or on demand	117	123	142
In more than one year but not more than two years	123	129	100
In more than two years but not more than five years	239	99	7
	<u>479</u>	<u>351</u>	<u>249</u>

Bank loans are secured by a first lien security interest in the furnishings, fixtures, and equipment of the Group. Amounts due under these loans are guaranteed by the Barrett Corporation. The loan terms are:

Loan 1 – Monthly instalments of \$8,673; interest is charged at the bank prime rate plus 0.5 per cent.

Loan 2 – Monthly instalments of \$2,864; interest is charged at the bank prime rate plus 0.5 per cent.

## 17. Other loans – maturity

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Other loans comprise:			
Compensation agreement	43	3	–
Loan from former shareholders in subsidiary	702	608	1,050
	<u>745</u>	<u>611</u>	<u>1,050</u>
The loans were due for repayment as follows:			
Repayable in one year or less	133	85	143
Repayable in more than one year but not more than two years	612	82	143
Repayable between two and five years	612	246	429
Repayable in more than five years	612	198	335
	<u>745</u>	<u>611</u>	<u>1,050</u>

The loans from former shareholders in the subsidiary Dixie Sales Company Inc. are secured by intra-group guarantees. The loan terms are:

J Starmer loan 1: Monthly instalments of \$1,319 plus accrued interest; interest is charged at the bank prime rate plus 1.0 per cent.

J Starmer loan 2: Monthly instalments of \$19,875; interest is charged at 4.2 per cent.

R Starmer loan: Monthly instalments of \$5,486 plus accrued interest; interest is charged at the bank prime rate plus 1.0 per cent.

## 18. Commitments under hire purchase agreements

Future commitments under hire purchase agreements are as follows:

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Amounts payable within one year	50	61	84
Amounts payable between one and two years	29	40	62
Amounts payable between two and five years	10	21	18
	<u>89</u>	<u>122</u>	<u>164</u>
Less interest and finance charges relating to future periods	(11)	(13)	(13)
	78	109	151
Hire purchase agreements are analysed as follows:			
Current obligations	43	54	75
Non-current obligations	35	55	76
	<u>78</u>	<u>109</u>	<u>151</u>

Hire purchase agreements are secured on the assets to which they relate.

## 19. Provisions for liabilities and charges

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Deferred taxation	130	145	145
	<u>130</u>	<u>145</u>	<u>145</u>

### Deferred taxation

The movement in the deferred taxation provision during the period/year was:

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Provision brought forward	80	130	145
Movement in the period/year	50	15	—
Provision carried forward	<u>130</u>	<u>145</u>	<u>145</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of the excess of taxation allowances over depreciation on fixed assets.

## 20. Commitments under operating leases

The BMGI Group had the following commitments under non-cancellable operating leases falling due within 12 months of each balance sheet date:

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year ended 31 Dec 2005 \$'000</i>
<b>Land and buildings</b>			
Expiring within one year	8	122	9
Expiring between one and five years	615	481	686
Expiring after five years	189	194	147
	<u>812</u>	<u>797</u>	<u>842</u>
<b>Other</b>			
Expiring within one year	15	4	15
Expiring between one and five years	357	361	386
	<u>372</u>	<u>365</u>	<u>401</u>

## 21. Share capital

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
<b>Authorised</b>			
3,000 common shares without nominal or par value	<u>3</u>	<u>3</u>	<u>3</u>
<b>Allotted, called up and fully paid</b>			
3,000 common shares	<u>3</u>	<u>3</u>	<u>3</u>

## 22. Profit and loss account

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
At the beginning of the year	142	248	260
Profit for the financial year	<u>106</u>	<u>12</u>	<u>159</u>
At the end of the year	<u>248</u>	<u>260</u>	<u>419</u>

### 23. Reconciliation of movement in shareholder's funds

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Profit for the financial year	106	12	159
Other recognised gains and losses relating to the financial year	—	—	—
Net (reduction in)/addition to funds	106	12	159
Opening shareholder's equity funds	141	251	263
Closing shareholder's equity funds	<u>251</u>	<u>263</u>	<u>422</u>

### 24. Cashflows

#### (a) Reconciliation of operating profit to net cash inflow from operating activities

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year endedt 31 Dec 2005 \$'000</i>
Operating (loss)/profit	458	448	1,186
Amortisation of goodwill	69	70	47
Depreciation	325	301	224
Loss/(profit) on disposal of fixed assets	—	(6)	(1)
(Increase) in stock	(545)	(2,223)	(2,029)
Decrease)/(increase) in debtors	(173)	(880)	(1,373)
(Decrease)/increase in creditors	(1,963)	2,600	1,403
Net cash (outflow)/inflow from operating activities	<u>(1,829)</u>	<u>310</u>	<u>(543)</u>

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

	<i>Year ended 31 Dec 2003 \$'000</i>	<i>Year ended 31 Dec 2004 \$'000</i>	<i>Year endedt 31 Dec 2005 \$'000</i>
(Decrease)/increase in cash in the year	(189)	(118)	158
(Increase)/decrease in overdrafts in the year	(2,570)	(264)	(2,056)
	(2,759)	(382)	(1,898)
Cash flow in respect bank and other loans	183	262	(337)
Cash flow in respect of hire purchase agreements	(33)	(112)	(163)
Increase in net debt from cashflows	(2,609)	(232)	(2,398)
New hire purchase agreements	46	81	121
Movement in net debt during the year	(2,563)	(151)	(2,277)
Opening net debt	(4,002)	(6,565)	(6,716)
Closing net debt	<u>(6,565)</u>	<u>(6,716)</u>	<u>(8,993)</u>

(c) Analysis of net debt

	<i>Opening balance \$'000</i>	<i>Cash flows \$'000</i>	<i>Other changes \$'000</i>	<i>Closing balance \$'000</i>
<b>At 1 January 2003</b>				
Cash at bank and in hand	406	(189)	–	217
Bank overdraft	(2,910)	(2,570)	–	(5,480)
	<u>(2,504)</u>	<u>(2,759)</u>	<u>–</u>	<u>(5,263)</u>
<b>Debt</b>				
Debts falling due within one year	(224)	(26)	–	(250)
Debts falling due after one year	(1,183)	209	–	(974)
Hire purchase	(91)	(33)	46	(78)
	<u>(4,002)</u>	<u>(2,609)</u>	<u>46</u>	<u>(6,565)</u>
<b>At 1 January 2004</b>				
Cash at bank and in hand	217	(118)	–	99
Bank overdraft	(5,480)	(264)	–	(5,744)
	<u>(5,263)</u>	<u>(382)</u>	<u>–</u>	<u>(5,645)</u>
<b>Debt</b>				
Debts falling due within one year	(250)	(484)	–	(734)
Debts falling due after one year	(974)	746	–	(228)
Hire purchase	(78)	(112)	81	(109)
	<u>(6,565)</u>	<u>(232)</u>	<u>81</u>	<u>(6,716)</u>
<b>At 1 January 2005</b>				
Cash at bank and in hand	99	158	–	257
Bank overdraft	(5,744)	(2,056)	–	(7,800)
	<u>(5,645)</u>	<u>(1,898)</u>	<u>–</u>	<u>(7,543)</u>
<b>Debt</b>				
Debts falling due within one year	(734)	5	–	(729)
Debts falling due after one year	(228)	(342)	–	(570)
Hire purchase	(109)	(163)	121	(151)
	<u>(6,716)</u>	<u>(2,398)</u>	<u>121</u>	<u>(8,993)</u>

**25. Financial instruments**

The financial instruments employed by the BMGI Group other than short term debtors and creditors are used to fund its operations and comprise cash, short-term deposits, long-term loans and finance leases.

BMGI's policy during the years ended 31 December 2003, 2004 and 2005 was to place the majority of its cash on short term deposit with its bankers and to finance the purchase of any significant fixed assets through finance leases and secured loans.

BMGI's exposure to interest rate risk is limited to inter-company loans and finance leases which are typically fixed rate and its bank loans and cash deposits which are typically floating rate. As permitted by Financial Reporting Standard 13 the disclosures below exclude short-term debtors and creditors.

### Interest rate risk profile of financial assets

The interest rate profile of financial assets of the BMGI Group at 31 December 2003, 2004 and 2005 was as follows:

	<i>Fixed Rate financial Assets \$'000</i>	<i>Floating Rate financial assets \$'000</i>	<i>Non- Interest bearing Asset \$'000</i>	<i>Total \$'000</i>
2003 US dollar	281	217	217	715
2004 US dollar	299	98	337	734
2005 US dollar	566	216	516	1,298
2005 Canadian dollar	–	40	–	40

The weighted average interest rate on fixed rate financial assets as at 31 December 2005 was 7.0% (2004: 7.0%; 2003: 7.0%). The fixed rate and non-interest bearing financial assets are due from group entities (see note 28) and are payable on demand.

### Interest rate risk profile of financial liabilities

The interest rate profile of financial liabilities of the BMGI Group as at 31 December 2003, 2004 and 2005 was as follows:

	<i>Fixed Rate financial liabilities \$'000</i>	<i>Floating Rate financial liabilities \$'000</i>	<i>Total \$'000</i>
2003 US dollar	133	6,650	6,783
2004 US dollar	112	6,703	6,815
2005 US dollar	676	8,575	9,251

The weighted average interest rate on fixed rate financial liabilities as at 31 December 2005 was 4.8% (2004: 6.4%; 2003: 7.7%).

The weighted average period to maturity of fixed rate financial liabilities at 31 December 2005 was 77.7 months (2004: 25.8 months; 2003: 19.1 months).

The fixed rate financial liabilities as at 31 December 2005 were for obligations under finance leases and hire purchase, a secured bank loan and a loan from a former shareholder in the subsidiary Dixie Sales Company Inc.

### Maturity of financial liabilities

The maturity profiles of the BMGI Group's financial liabilities as at 31 December 2003, 2004 and 2005 were as follows:

	<i>As at 31 Dec 2003 \$'000</i>	<i>As at 31 Dec 2004 \$'000</i>	<i>As at 31 Dec 2005 \$'000</i>
Payable within one year	5,774	6,006	8,161
Payable between one and two years	230	248	301
Payable between two and five years	499	363	454
Payable after more than five years	280	198	335

### Currency exposures

The table below shows BMGI's currency exposures that give rise to net currency gains and losses recognised in the profit and loss account. Such exposures comprise of monetary assets and liabilities of Dixie that are not denominated in the operating currency of the operating unit involved.

	<i>Canadian dollar \$'000</i>	<i>Total \$'000</i>
2003 US dollar	—	—
2004 US dollar	—	—
2005 US dollar	40	40

### Borrowing facility

At 31 December 2005 BMGI had an overdraft facility of \$9,000,000 of which \$1,000,000 is set aside for certain letters of credit.

### Fair values of financial assets and financial liabilities

The fair values, based upon the market value or discounted cash flows of the financial instruments detailed above were not materially different from their book values.

### 26. Contingent liabilities

The subsidiary Dixie Sales Company Inc. is a guarantor of a loan of \$3,844,000 that is an obligation of BMGI's ultimate parent company, Barrett Corporation Inc. The loan is secured over all of the assets of the subsidiary Dixie Sales Company Inc. As at 31 December 2005, Barrett Corporation is either in compliance with or has received waivers for all covenants contained in the agreements.

### 27. Related party transactions

Amounts owed by related parties at the balance sheet dates were as follows:

		<i>As at 31 December</i>		
		<i>2003</i>	<i>2004</i>	<i>2005</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Barrett Corporation	Ultimate parent undertaking	319	337	604
Barrett Marketing Group Ltd	Group undertaking	300	308	337
Barrett Management Group Ltd	Group undertaking	5	5	11
Mower MD South East Inc	Joint venture	—	—	47
		<u>624</u>	<u>650</u>	<u>999</u>

Amounts owed to related parties at the balance sheet dates were as follows:

		<i>As at 31 December</i>		
		<i>2003</i>	<i>2004</i>	<i>2005</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Barrett Marketing Group Ltd	Group undertaking	<u>2,646</u>	<u>2,557</u>	<u>2,588</u>

The President of Dixie Sales Company Inc., J E Starmer Jr, was interested in rent paid by that company, both to him personally and to R & J Properties, a company of which he owns 50 per cent. of the share capital.

Transactions with related parties were as follows:

	<i>Paid to/received from</i>	<i>Years ended 31 December</i>		
		<i>2003</i>	<i>2004</i>	<i>2005</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Income</b>				
Service fee income	Barrett Management Group	6	20	17
Sale of goods	Barrett Management Group	–	30	–
Sale of goods	Mower MD South East	–	–	23
Interest receivable	Barrett Corporation	35	17	18
<b>Expense</b>				
Cost of sales recharged	Barrett Management Group	–	–	100
Purchases	Barrett Management Group	–	–	205
Admin costs recharged	Barrett Corporation	144	138	150
Admin costs recharged	Barrett Management Group	–	–	311
Management fees paid	Barrett Corporation	17	78	66
Rent paid	R & J Properties	382	390	397
Rent paid	J E Starmer Jr	6	16	17
Interest paid	J E Starmer Jr and R Starmer	41	33	46

During the year ended 31 December 2004, the following short terms loan were advanced to Dixie by related parties at interest rates of 15 per cent. per annum:

		<i>Loan advanced</i>	<i>Date advanced</i>	<i>Date repaid</i>	<i>Interest paid</i>
		<i>\$'000</i>			<i>\$'000</i>
J E Starmer Jr	President	150	12 Jan 04	17 Jun 04	10
J E Starmer Jr	President	125	16 Feb 04	15 Jul 04	8
Pine Ridge Diversified Ltd	A Canadian company owned by P Porteous (CEO) and his wife	45	12 Jan 04	15 Jul 04	2
Mrs L Garrett	Chief Financial Officer	15	12 Jan 04	15 Jul 04	1
		<u>335</u>			<u>21</u>

## 28. Post balance sheet events

On 17 May 2006, the Company agreed, conditional *inter alia* upon Admission and shareholder approval, to acquire the entire issued shares of BMGI. Under the agreement the purchase price will be satisfied by the allotment and issue of 17,559,131 Ordinary Shares and a promissory note for \$1.084 million secured over the assets of Dixie. Prior to the Acquisition the trade and certain net assets of BMGI will be transferred to another company and BDS will be dissolved and liquidated. On acquisition, Dixie and Mower MD will be the only trading entities within the BMGI Group.

## 29. Control

Throughout the period from 1 January 2003 to 31 December 2005, the ultimate controlling party was Barrett Corporation Inc, a company incorporated in Canada.

## SECTION B

### ACCOUNTANTS' REPORT ON BARRETT MARKETING GROUP INC.

The following is the full text of a report on Barrett Marketing Group Inc. from Baker Tilly, the Reporting Accountants, to the Directors of Freeplay Energy plc.

The Directors  
Freeplay Energy plc  
2 Stone Buildings  
Lincoln's Inn  
London  
WC2A 3TH



23 June 2006

Dear Sirs

#### **Financial information on Barrett Marketing Group Inc.**

We report on the financial information set out in Section A of Part IV. This financial information has been prepared for inclusion in the Admission Document dated 23 June 2006 ("the Admission Document") of Freeplay Energy plc on the basis of the accounting policies set out in Note 1. This report is required by paragraph 20.1 of Annex I of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under the AIM rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement required by and given solely for the purposes of complying with paragraph 20.1 of Annex 1 of the AIM rules consenting to its inclusion in this Admission Document

#### **Responsibilities**

As described in Section A of Part IV, the directors of Freeplay Energy plc are responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information and in accordance with UK Financial Reporting Standards.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of 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 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 Admission Document, a true and fair view of the state of affairs of Barrett Marketing Group Inc. as at the dates stated and of the profits and losses, cash flows and recognised gains and losses and changes in equity for the periods then ended.

**Declaration**

For the purposes of compliance with item 1.2 of Annex I of the AIM Rules and item 1.2 of Annex III of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Yours faithfully

*Baker Tilly*

Regulated for audit work by the Institute of Chartered Accountants of Scotland

## PART V

### FINANCIAL INFORMATION ON FREEPLAY

#### BASIS OF PREPARATION

The financial information in this Part V in respect of Freeplay has been extracted without material adjustment from the audited financial statements of Freeplay for the periods ended 31 December 2003, 30 December 2004 and 31 December 2005. The financial information does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Audited statutory accounts for Freeplay have been delivered to the Registrar of Companies for the periods ended 31 December 2003, 30 December 2004 and 31 December 2005.

Unqualified audit reports in accordance with section 235 to 237 of the Companies Act 1985 for each of the three periods referred to above have been given by PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, First Point, Buckingham Gate, Gatwick RH6 0PP.

#### 1. PROFIT AND LOSS

	<i>Notes</i>	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
<b>Turnover – continuing operations</b>	2	6,347	6,302	3,083
Cost of sales – continuing operations		(4,110)	(4,188)	(1,977)
<b>Gross profit</b>		2,237	2,114	1,106
Net operating expenses – continuing operations		(4,387)	(2,806)	(5,524)
Goodwill amortisation		(2,173)	–	–
Goodwill impairment		(7,606)	–	–
<b>Operating loss – continuing operations</b>		(11,929)	(692)	(4,418)
Interest receivable and similar income	6	–	39	36
Interest payable and similar charges	6	(2,136)	(1,313)	(129)
<b>Loss on ordinary activities before taxation</b>	3	(14,065)	(1,966)	(4,511)
Tax credit on loss on ordinary activities	7	284	-	212
<b>Loss for the financial year/period</b>	21	(13,781)	(1,966)	(4,299)
<b>Basic and diluted loss per 5p ordinary share (in US\$)</b>	8	(0.29)	(0.14)	(0.22)

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents.

## 2. CONSOLIDATED BALANCE SHEET

	Notes	31 December 2003 US \$'000	30 December 2004 US \$'000	30 December 2005 US \$'000
<b>Fixed assets</b>				
Intangible assets	9	–	–	–
Tangible assets	10	481	519	651
Investments	11	–	–	–
		<u>481</u>	<u>519</u>	<u>651</u>
<b>Current assets</b>				
Stocks	12	86	140	838
Debtors	13	1,136	2,447	2,643
Cash at bank and in hand		91	118	325
		<u>1,313</u>	<u>2,705</u>	<u>3,806</u>
<b>Creditors: amounts falling due within one year (including convertible loan stock)</b>	14	<u>(7,379)</u>	<u>(12,246)</u>	<u>(4,661)</u>
<b>Net current liabilities</b>		<u>(6,066)</u>	<u>(9,541)</u>	<u>(855)</u>
<b>Total assets less current liabilities</b>		<u>(5,585)</u>	<u>(9,022)</u>	<u>(204)</u>
<b>Creditors: amounts falling due after more than one year</b>	15	–	–	(45)
<b>Provisions for liabilities and charges</b>	17	<u>(986)</u>	<u>(55)</u>	–
<b>Net liabilities</b>		<u>(6,571)</u>	<u>(9,077)</u>	<u>(249)</u>
<b>Capital and reserves</b>				
Called up share capital	19	1,342	1,342	3,936
Share premium account	20	7,232	7,232	17,052
Merger reserve	20	1,947	1,947	1,947
Other reserve	21	–	60	60
Profit and loss account	21	<u>(17,092)</u>	<u>(19,658)</u>	<u>(23,244)</u>
<b>Total shareholders' deficit</b>	22	<u>(6,571)</u>	<u>(9,077)</u>	<u>(249)</u>
<b>Represented by:</b>				
Equity shareholders' deficit		(14,842)	(17,408)	(249)
Non-equity shareholders' funds		<u>8,271</u>	<u>8,331</u>	–
<b>Total shareholders' deficit</b>		<u>(6,571)</u>	<u>(9,077)</u>	<u>(249)</u>

### 3. CONSOLIDATED CASH FLOW STATEMENT

	<i>Notes</i>	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
<b>Net cash outflow from operating activities</b>	23	(2,027)	(2,377)	(6,206)
<b>Returns on investments and servicing of finance</b>				
Interest paid		(38)	(124)	(75)
Interest element of finance lease rentals payment		–	–	(1)
Interest received		–	39	36
		<hr/>	<hr/>	<hr/>
<b>Net cash outflow from returns on investments and servicing of finance</b>		(38)	(85)	(40)
<b>Taxation refund</b>		133	–	212
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(118)	(230)	(291)
		<hr/>	<hr/>	<hr/>
<b>Net cash outflow for capital expenditure and financial investment</b>		(118)	(230)	(291)
<b>Net cash outflow before financing</b>		(2,050)	(2,692)	(6,325)
<b>Financing</b>				
Issue of ordinary share capital		–	–	6,650
Expenses of share issue		–	–	(2,296)
New convertible loan stock		–	–	2,819
Issue of preference share capital		481	40	–
Issue of preference share warrants		–	60	–
Capital element of finance lease payments	24	(19)	–	(1)
(Decrease) / increase in borrowings	24	1,008	1,331	(455)
		<hr/>	<hr/>	<hr/>
<b>Net cash inflow from financing</b>		1,470	1,431	6,717
		<hr/>	<hr/>	<hr/>
<b>Increase / (decrease) in cash</b>	24	(580)	(1,261)	392
		<hr/>	<hr/>	<hr/>

#### 4. STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES

	<i>Notes</i>	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
Loss for the financial year/period	21	(13,781)	(1,966)	(4,299)
Currency translation differences on net investment in foreign subsidiaries	21	(129)	(600)	713
<b>Total recognised losses for the year/period</b>		<u>(13,910)</u>	<u>(2,566)</u>	<u>(3,586)</u>

#### 5. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	<i>Notes</i>	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
Increase/(decrease) in cash in year/period		(580)	(1,261)	392
Movement in borrowings		(989)	(1,331)	455
Convertible loan stock		–	–	(2,819)
Finance lease payments		–	–	1
Change in net debt resulting from cash flows		(1,569)	(2,592)	(1,971)
New finance leases		–	–	(55)
Other non-cash changes		(2,098)	(1,189)	8,194
Net debt at beginning of year/period		(1,010)	(4,677)	(8,458)
<b>Net debt at end of year/period</b>	24	<u>(4,677)</u>	<u>(8,458)</u>	<u>(2,290)</u>

#### 6. NOTES TO THE FINANCIAL STATEMENTS

##### *Basis of preparation*

The principal activity of the Group is the development and distribution of self-powered technology. The Combined and Consolidated Financial Information of the Group is prepared for the three financial years ended 31 December 2005. The Group comprises a number of legal entities. The principal entities included within the financial information are shown in note 11.

##### *Basis of preparation – going concern*

At 30 December 2005, the group has net current liabilities of US \$855,000 (2004: US \$9,541,000) and net liabilities of US \$249,000 (2004: US \$9,077,000). In order to meet the liabilities as they fall due, additional funding from shareholders is required and the directors have had confirmation of a formal placing agreement to raise an additional amount of US \$7m (net of expenses). On 18 May 2006, the shares of the company were suspended on the AIM market of the London Stock Exchange, pending negotiations for the acquisition of a majority shareholding in Dixie Sales Company Inc. There is an Extraordinary General Meeting planned to take place on 17 July 2006 at which the acquisition and the issuance of shares will be approved by the members. Following this, assuming that such approval is given, it is proposed that the shares will be re-admitted to the AIM market of the London Stock Exchange. The directors consider that sufficient funds will be secured from the placing in order that the group is able to meet its liabilities as they fall due and the combined operations of the enlarged group will achieve the forecasted sales and results and therefore the financial statements have been prepared on the going concern basis.

### ***Basis of compilation***

The Consolidated Financial Information for the year ended 31 December 2003, the period ended 30 December 2004 and the year ended 30 December 2005 is based on the audit of Freeplay Energy and its subsidiaries.

### ***Accounting Convention***

The Combined and Consolidated Information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and Companies Act 1985. A summary of the more important group accounting policies, which have been consistently applied, is set out below.

### ***Basis of accounting and reporting currency***

The Combined and Consolidated Information has been prepared in accordance with accounting standards generally accepted in the United Kingdom and United Kingdom statute comprising the Companies Act 1985. The Combined and Consolidated Information is presented in United States of America Dollars, denoted by the symbol “US\$”, as this is considered by the directors to be the group’s functional currency.

### ***Basis of consolidation***

Acquisitions are accounted for under acquisition accounting rules. The results of subsidiaries sold or acquired are included in the combined and consolidated profit and loss account up to, or from, the date control passes.

All inter-company transactions are eliminated as part of the consolidation process.

### ***Goodwill***

Goodwill is capitalised and amortised over its expected useful life. Goodwill represents the excess of the fair value of the consideration paid for the acquisition of shares in subsidiaries over the fair value of their separable net assets acquired. The useful lives of goodwill related to acquired businesses have been determined by reference to the periods over which the values of the underlying businesses are expected to exceed the values of their identifiable net assets and is presumed to be five years. Intangible assets acquired, such as brands, where their value cannot be reliably measured, are included within goodwill.

### ***Impairment of fixed assets and goodwill***

A review for impairment of fixed assets and goodwill is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset or goodwill may not be recoverable. Impairment reviews comprise a comparison of the carrying amount of the fixed asset or goodwill with its recoverable amount (the higher of net realisable value and value in use). To the extent that the carrying amount exceeds the recoverable amount, the fixed asset or goodwill is impaired and an impairment loss is recognised in the profit and loss account.

### ***Revenue recognition***

Revenue is recognised upon delivery to the customer, when there are no significant vendor obligations remaining, and the collection of the resulting trade debtors is considered probable. Turnover, which excludes sales between group companies, represents the value of goods supplied net of value added tax and trade discounts.

### ***Fixed asset investments***

Fixed asset investments are stated at cost less a provision for any impairment in value.

### ***Tangible fixed assets***

Tangible fixed assets are stated at cost. The cost is the purchase cost, together with any directly attributable costs of acquisition.

Depreciation is calculated so as to write off the cost of fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned.

The principal annual rates for this purpose are:

Leasehold improvements	Over shorter of lease term and	10% – 33% straight line
Plant and machinery, moulds and tooling		20% – 50% straight line
Office furniture and equipment		16% – 20% straight line
Computer equipment		33% straight line
Motor vehicles		20% – 33% straight line

#### ***Research and development costs, patents and trademarks***

Research and development costs are written off as incurred. Patent and trademark costs are also written off as incurred. Tax credits associated with research and development expenditure are recognised once their receipt is considered to be virtually certain.

#### ***Stocks***

Stocks are stated at the lower of cost incurred in bringing each product to its present location, and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal and also includes provisions made for obsolete and slow moving stock.

#### ***Deferred taxation***

Full provision is made for deferred taxation in respect of all timing differences that have originated but not reversed by the balance sheet date, using the incremental liability approach. Deferred tax assets are recognised to the extent that they are regarded as recoverable. The group has chosen not to adopt a policy of discounting deferred tax balances.

#### ***Foreign currencies***

Assets and liabilities of subsidiaries in foreign currencies are translated into US dollars at rates of exchange ruling at the end of the financial period and the results and cash flows of subsidiaries in foreign currencies are translated into US dollars on an average exchange rate basis. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies and from the translation of the results of those companies at the closing rate, are taken to the profit and loss account reserve and are reported in the statement of total recognised gains and losses.

All other foreign currency assets and liabilities are translated at the exchange rate ruling at the balance sheet date and all other profits and losses on exchange are dealt with through the profit and loss account.

#### ***Provisions***

A provision is recognised when an entity has a present obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount. Provisions have not been subject to discounting.

#### ***Pension costs***

Certain companies in the Group operate defined contribution pension schemes. The pension cost charge for the period for defined contribution schemes represents contributions payable by the group to the schemes.

#### ***Leases***

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

#### ***Financial instruments***

All borrowings are initially stated at the fair value of the consideration received after deduction of issue

costs. Issue costs together with other finance costs such as premiums on redemption are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding. Accrued finance costs attributable to borrowings are included in accrued charges within current liabilities, unless the finance cost is only repayable on redemption, in which case the accrued finance costs are included within the carrying value of borrowings. Accrued issue costs are netted against the carrying value of borrowings.

## 2. Segmental reporting

Turnover represents activity with respect to the group's principal activities which are considered by the directors to represent a single class of business. The analysis of the group's turnover by geographical destination and the group's turnover, loss before tax and net liabilities by geographical origin is set out below:

<b>Turnover</b>	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
<b>Geographical analysis by destination</b>			
United Kingdom and Continental Europe	1,696	2,327	1,449
North America	2,322	1,944	573
Africa and Rest of World	2,329	2,031	1,061
	<u>6,347</u>	<u>6,302</u>	<u>3,083</u>
<b>Turnover</b>	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
<b>Geographical analysis by origin</b>			
United Kingdom and Continental Europe	–	–	–
North America	–	–	–
Africa and Rest of World	6,347	6,302	3,083
	<u>6,347</u>	<u>6,302</u>	<u>3,083</u>
<b>Loss before tax</b>	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
<b>Geographical analysis by origin</b>			
United Kingdom and Continental Europe	(4,835)	(2,049)	(2,695)
North America	–	–	–
Africa and Rest of World	549	83	(1,816)
	<u>(4,286)</u>	<u>(1,966)</u>	<u>(4,511)</u>
<b>Net liabilities</b>	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
<b>Geographical analysis by origin</b>			
United Kingdom and Continental Europe	(7,856)	(11,106)	1,155
Africa and Rest of World	(1,285)	2,029	(1,404)
<b>Net liabilities</b>	<u>(6,571)</u>	<u>(9,077)</u>	<u>(249)</u>

### 3. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging / (crediting):

	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
Auditors' remuneration			
- for audit	110	69	74
- for tax advisory services	38	54	105
Depreciation			
- owned assets	182	230	199
Amortisation of goodwill	2,173	–	–
Goodwill impairment	7,606	–	–
Loss on disposal of fixed assets	17	–	–
Credit in respect of provision for onerous lease (see note 17)	–	(526)	–
Costs of aborted share issue (*See note below)	–	179	–
Exceptional costs of overseas contracts	216	–	–
Rentals under operating leases – other assets	464	270	280
Research and development costs	680	811	907

In addition to the payments to auditors shown above, a further amount of US\$757,900 in respect of further assurance services incurred in the period ended 30 December 2004 was included within debtors as prepayments in the balance sheet at 30 December 2004. During the year ended 30 December 2005 these costs were debited to the share premium account. These relate to costs incurred in connection with the group's admission to AIM (see note 19).

\*Certain employees and directors have been employed under United Kingdom and overseas contract arrangements since 2001 for which no United Kingdom PAYE or national insurance deductions have been made on the overseas contracts. During the year it became apparent that certain criteria required to meet the conditions necessary to treat these contracts as offshore may not have been met. Accordingly, the Group has voluntarily disclosed this issue to the Inland Revenue and on 31 January 2005 paid an amount of £121,100 (equivalent to US\$216,000) to the Inland Revenue as settlement of this matter. Whilst final agreement with the Revenue has not been reached, the directors are confident that no further material exposure will arise.

### 4. Directors' emoluments

	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
Aggregate emoluments	208	503	835
Highest paid director	208	287	503

No retirement benefits are accruing to any directors under money purchase or defined benefit schemes.

### 5. Employee information

The average monthly number of persons (including directors) employed by the group during the year ended 31 December 2003 was 36, during the period ended 30 December 2004 was 29, during the year ended 30 December 2005 was 28. These comprise employees working in business development during the year ended 31 December 2003 of 4, during the period ended 30 December 2004 of 2 and during the year ended 30 December 2005 of 2, research and development during the year ended 31 December 2003 of 24, during the period ended 30 December 2004 of 19 and during the year ended 30 December 2005 of 15 and in administration during the year ended 31 December 2003 of 8, during the period ended 30 December 2004 of 8 and during the year ended 30 December 2005 of 11.

	<i>Year ended</i> <i>31 December</i> 2003 <i>US \$'000</i>	<i>Period ended</i> <i>30 December</i> 2004 <i>US \$'000</i>	<i>Year ended</i> <i>30 December</i> 2005 <i>US \$'000</i>
<b>Staff costs</b>			
Wages and salaries	1,320	1,317	1,704
Social security costs	301	32	24
Pension costs	109	84	71
	<u>1,730</u>	<u>1,433</u>	<u>1,799</u>

#### 6. Interest and similar charges

	<i>Year ended</i> <i>31 December</i> 2003 <i>US \$'000</i>	<i>Period ended</i> <i>30 December</i> 2004 <i>US \$'000</i>	<i>Year ended</i> <i>30 December</i> 2005 <i>US \$'000</i>
Finance costs on other loans	2,000	1,199	53
Interest payable on bank overdraft	–	105	40
Interest payable on finance leases rentals	–	–	1
Interest payable on other loans interest payable	136	9	35
	<u>2,136</u>	<u>1,313</u>	<u>129</u>
Interest receivable – other	–	(39)	(36)
Net interest payable and similar items	<u>2,136</u>	<u>1,274</u>	<u>93</u>

#### 7. Tax credit on loss on ordinary activities

	<i>Year ended</i> <i>31 December</i> 2003 <i>US \$'000</i>	<i>Period ended</i> <i>30 December</i> 2004 <i>US \$'000</i>	<i>Year ended</i> <i>30 December</i> 2005 <i>US \$'000</i>
<b>Analysis of credit in year</b>			
<b>United Kingdom</b>			
Corporation tax at 30% on loss of the year / period	–	–	–
Corporation tax adjustments in respect of previous years	284	–	212
Total United Kingdom tax credit	284	–	212
<b>Foreign tax</b>			
Corporation taxes	–	–	–
Total current tax credit	284	–	212
<b>Tax credit on loss on ordinary activities</b>	<u>284</u>	<u>–</u>	<u>212</u>

The tax for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	<i>Year ended</i> <i>31 December</i> 2003 <i>US \$'000</i>	<i>Period ended</i> <i>30 December</i> 2004 <i>US \$'000</i>	<i>Year ended</i> <i>30 December</i> 2005 <i>US \$'000</i>
Loss on ordinary activities before tax	(14,065)	(1,966)	(4,511)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(4,220)	(590)	(1,353)
Effects of:			
Non-deductible expenses and tax losses not giving rise to current year relief	1,286	590	1,353
Adjustments in respect of prior years	284	–	212
Goodwill amortisation	652	–	–
Goodwill impairment	2,282	–	–
Tax credit for the year/period	<u>284</u>	<u>–</u>	<u>212</u>

The adjustments in respect of the prior years relate to research and development tax credit claims in respect of prior years which were received during the year.

Factors that may affect future tax charges:

During the financial year ended 30 December 2005, the group submitted research and development tax credits claims to HM Revenue & Customs in respect of the period ended 30 December 2004 amounting to US \$54,000. The group has not recognised any tax assets in respect of subsequent years and these will be credited in the year in which claims have been made to the Inland Revenue. In addition, certain companies in the group have unutilised tax losses which may be available to offset against future taxable profits (see note 18).

## 8. Loss per share

	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
Loss for the financial year/period	(13,781)	(1,966)	(4,299)
Adjustment:			
Goodwill amortisation	2,173	–	–
Goodwill impairment	7,606	–	–
Loss for the financial year/period	<u>(4,002)</u>	<u>(1,966)</u>	<u>(4,299)</u>
Average number of ordinary shares in issue (in thousands)	13,990	13,990	19,599
Basic and diluted loss per 5p ordinary share (in US\$)	(0.29)	(0.14)	(0.22)

The calculation of the basic and diluted loss per ordinary share of US\$0.22 (2004: US\$0.14, 2003: US\$0.29) each has been based on the loss for the relevant financial year/period and on 19,599,426 shares (2004: 13,990,342, 2003: 13,990,342). This represents the average number of ordinary shares in issue. None of the contingently issuable share options give rise to a dilution in the loss per share due to the losses made in the year.

## 9. Intangible assets

	<i>Goodwill US \$'000</i>
<b>Cost</b>	
At 31 December 2003, 30 December 2004 and at 30 December 2005	10,866
<b>Amortisation</b>	
At 1 January 2003	1,087
Charge for the year	2,173
Impairment in the year	7,606
At 30 December 2004 and at 30 December 2005	<u>10,866</u>
<b>Net book value</b>	
At 30 December 2005	–
At 30 December 2004	–
At 30 December 2003	<u>–</u>

The goodwill arising on the Freeplay Group Acquisition was amortised on a straight-line basis over five years. This is the period over which the directors estimated that the value of the underlying business acquired was expected to exceed the value of the underlying assets.

## 10. Tangible fixed assets

<i>Group</i>	<i>Leasehold improvements US \$'000</i>	<i>Plant and machinery, moulds and tooling US \$'000</i>	<i>Office furniture and equipment US \$'000</i>	<i>Motor vehicles US \$'000</i>	<i>Total US \$'000</i>
<b>Cost</b>					
At 1 January 2003	44	389	507	80	1,020
Exchange adjustments	12	10	3	–	25
Additions	2	92	24	–	118
Disposals	–	–	–	(77)	(77)
<b>At 31 December 2003</b>	<b>58</b>	<b>491</b>	<b>534</b>	<b>3</b>	<b>1,086</b>
Exchange adjustments	12	19	66	–	97
Additions	–	195	35	–	230
Reclassification and write-offs	–	(78)	51	–	(27)
<b>At 31 December 2004</b>	<b>70</b>	<b>627</b>	<b>686</b>	<b>3</b>	<b>1,386</b>
Write-offs	(62)	–	–	–	(62)
Exchange adjustments	(8)	(13)	(71)	–	(92)
Additions	–	234	112	–	346
<b>At 30 December 2005</b>	<b>–</b>	<b>848</b>	<b>727</b>	<b>3</b>	<b>1,578</b>
<b>Aggregate depreciation</b>					
At 1 January 2003	20	129	274	60	483
Charge for the year	26	66	89	1	182
Eliminated on disposals	–	–	–	(60)	(77)
<b>At 31 December 2003</b>	<b>46</b>	<b>195</b>	<b>363</b>	<b>1</b>	<b>605</b>
Exchange adjustments	9	10	40	–	59
Charge for the period	15	95	119	1	230
Reclassification and write-offs	–	(72)	45	–	(27)
<b>At 31 December 2004</b>	<b>70</b>	<b>228</b>	<b>567</b>	<b>2</b>	<b>867</b>
Write-offs	(62)	–	–	–	(62)
Exchange adjustments	(8)	(8)	(61)	–	(77)
Charge for the year	–	105	93	1	199
<b>At 30 December 2005</b>	<b>–</b>	<b>325</b>	<b>599</b>	<b>3</b>	<b>927</b>
<b>Net book value</b>					
<b>At 31 December 2003</b>	<b>12</b>	<b>296</b>	<b>171</b>	<b>2</b>	<b>481</b>
<b>At 30 December 2004</b>	<b>–</b>	<b>399</b>	<b>119</b>	<b>1</b>	<b>519</b>

<i>Group</i>	<i>Leasehold improvements</i> <i>US \$'000</i>	<i>Plant and machinery, moulds and tooling</i> <i>US \$'000</i>	<i>Office furniture and equipment</i> <i>US \$'000</i>	<i>Motor vehicles</i> <i>US \$'000</i>	<i>Total</i> <i>US \$'000</i>
At 30 December 2005	–	523	128	–	651

Included in the above are assets held under finance leases as follows:

	<i>Year ended 31 December 2003</i> <i>US \$'000</i>	<i>Period ended 30 December 2004</i> <i>US \$'000</i>	<i>Year ended 30 December 2005</i> <i>US \$'000</i>
Cost	–	–	55
Aggregate depreciation	–	–	1
Net book value	–	–	54

## 11. Fixed asset investments

Shares in group undertakings

### As at 31 December 2003 and as at 30 December 2004

Details of subsidiary undertakings at the end of the year, which are wholly owned by Freeplay Energy plc except where noted, are as follows:

<i>Name of subsidiary</i>	<i>Description of shares held</i>	<i>Country of incorporation</i>	<i>Principal activities</i>
Freeplay Market Development Limited (*)	2 ordinary shares of £1 each	United Kingdom	Research and development company
Baylis Generators Limited (*)	24,182 ordinary shares of 1p each	United Kingdom	Development company
Freeplay Asia Limited (**)	2 ordinary shares of HK \$1 each	Hong Kong	Procurement and distribution company
Freeplay Market Development (Pty) Limited (*)	100 ordinary shares of R1 each	South Africa	Research and development company
Freeplay Energy Trading Limited (*)	1,146 ordinary shares of US \$1 each	Mauritius	Dormant
Freeplay Energy Holdings Limited	38,743,480 ordinary shares of 1p each	Jersey	Non-trading
Freeplay Energy Europe Limited (*)	2,839,729 ordinary shares of 1p each	United Kingdom	Non-trading

(\*) denotes indirect shareholding

(\*\*) denotes 50% held directly and 50% held indirectly

### As at 30 December 2005

Details of subsidiary undertakings at the end of the year, which are wholly owned by Freeplay Energy plc except where noted, are as follows:

<i>Name of subsidiary</i>	<i>Description of shares held</i>	<i>Country of incorporation</i>	<i>Principal activities</i>
Freeplay Market Development Limited (*)	2 ordinary shares of £1 each	United Kingdom	Research and development company
Baylis Generators Limited (*)	24,182 ordinary shares of 1p each	United Kingdom	Development company
Freeplay Asia Limited (**)	2 ordinary shares of HK \$1 each	Hong Kong	Procurement and distribution company
Freeplay Market Development (Pty) Limited(*)	100 ordinary shares of R1 each	South Africa	Research and development company
Summerspark Limited	1,000 ordinary shares of £1 each	United Kingdom	Dormant

(\*) denotes indirect shareholding

(\*\*) denotes 50% held directly and 50% held indirectly

## 12. Stocks

	<i>31 December 2003 US \$'000</i>	<i>30 December 2004 US \$'000</i>	<i>30 December 2005 US \$'000</i>
Finished goods	20	–	790
Work-in-progress	–	13	7
Raw materials and consumables	66	127	41
	<u>86</u>	<u>140</u>	<u>838</u>

## 13. Debtors

	<i>31 December 2003 US \$'000</i>	<i>30 December 2004 US \$'000</i>	<i>30 December 2005 US \$'000</i>
<b>Amounts falling due within one year</b>			
Trade debtors	484	1,065	2,178
Other debtors	281	171	213
Corporation tax receivable	151	159	–
Unpaid share capital(see note 20)	40	–	–
Prepayments	180	1,052	252
	<u>1,136</u>	<u>2,447</u>	<u>2,643</u>

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

	<i>31 December 2005 US \$'000</i>	<i>30 December 2004 US \$'000</i>	<i>30 December 2005 US \$'000</i>
Convertible loan stock	–	635	–
Bank overdraft	624	1,912	1,533
Other borrowings	4,144	6,029	1,028
Trade creditors	980	1,315	1,044
Obligations under finance leases and hire purchase contracts	–	–	9
Other taxation and social security	280	314	102
Other creditors	928	807	491
Accruals	423	1,234	454
	<u>7,379</u>	<u>12,246</u>	<u>4,661</u>

Other borrowings comprise the following:

	<i>31 December 2003 US \$'000</i>	<i>30 December 2004 US \$'000</i>	<i>30 December 2005 US \$'000</i>
Shareholder loans	3,034	4,589	–
Other shareholder loans	29	29	29
Loans from directors	–	338	–
Loan from former director	167	117	–
Other loans	914	956	999
	<u>4,144</u>	<u>6,029</u>	<u>1,028</u>

Shareholder loans of US\$4,599,000 (included within this amount is interest of US\$1,000,000) comprising US\$3,076,000 owing to Wild Investments Limited and other loans of US\$1,523,000 (see note 29), were converted into 4,166,667 and 2,430,556 ordinary shares of 5p each respectively on 2 March 2005. In addition, the company's convertible loan stock converted into 4,503,205 ordinary shares of 5p each, in accordance with the terms of this loan stock on 2 March 2005 (see note 19).

Other shareholder loans of US\$29,000 (2004: US\$29,000) represent amounts repayable to certain shareholders. No interest is payable on these amounts. Further details of shareholder loans and loans from directors are set out in note 29.

**15. Creditors: amounts falling due after more than one year**

	<i>31 December 2003 US \$'000</i>	<i>30 December 2004 US \$'000</i>	<i>30 December 2005 US \$'000</i>
Obligations under finance leases	–	–	45
	–	–	45
Due within one year	–	–	9
In more than one year but not more than five years	–	–	45
	<u>–</u>	<u>–</u>	<u>54</u>

Obligations under finance leases are secured on the assets concerned.

## **16. Financial instruments**

The group's financial instruments comprise borrowings, some cash and various items, such as trade debtors, trade creditors etc, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The group does not generally enter into derivative transactions (such as interest rate swaps and forward foreign currency contracts), and it is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

### ***Interest rate risk***

The group finances its operations through a mixture of bank borrowings and other borrowings. The group borrows in currencies at both fixed and floating rates of interest in order to generate the desired interest profile.

### ***Liquidity risk***

The group's policy is to achieve continuity of funding by ensuring that adequate loan facilities are in place appropriate to meet its forecast requirements. Where possible the group seeks to put committed facilities in place.

### ***Foreign currency risk***

The group's operational and reporting currency is US dollars, and where possible revenues, costs and financing of the group's global operations are denominated in this currency. Sterling denominated amounts have been retranslated into US dollars using the following rates of exchange: 30 December 2005 £1/US\$1.72 (2004: £1/US \$1.92, 2003: £1/US \$1.79)

The following disclosures (apart from currency disclosures) exclude short term debtors and creditors arising directly from the group's operations, and are after taking account of any interest rate or currency swaps used to manage the interest and currency profile

<i>Currency</i>	<i>Total US \$'000</i>	<i>Floating rate financial liabilities US \$'000</i>	<i>Fixed rate financial liabilities US \$'000</i>	<i>Financial liabilities on which no interest is paid US \$'000</i>
US dollars				
– Other borrowings	4,144	951	914	2,279
– Bank loans and overdrafts	1	1	–	–
Preference shares (Sterling)	8,271	–	–	8,271
Sterling				
– Bank loans and overdrafts	623	623	–	–
Other currencies	–	–	–	–
<b>At 31 December 2003</b>	<b>13,039</b>	<b>1,575</b>	<b>914</b>	<b>10,550</b>
US dollars				
– Other borrowings	6,029	1,456	1,294	3,279
Preference shares and warrants (Sterling)	8,331	–	–	8,331
Sterling				
– Convertible loan stock	635	–	–	635
– Bank loans and overdrafts	1,912	1,912	–	–
Other currencies	–	–	–	–
<b>At 30 December 2004</b>	<b>16,907</b>	<b>3,368</b>	<b>1,294</b>	<b>12,245</b>
US dollars				
- Other borrowings	1,028	–	999	29
Sterling				
- Bank loans and overdrafts	1,533	1,533	–	–
Other currencies				
- Finance leases	54	54	–	–
<b>At 30 December 2005</b>	<b>2,615</b>	<b>1,587</b>	<b>999</b>	<b>29</b>

In addition to the above, the group's provisions of US\$nil (2004: US\$55,000, 2003: US\$986,000) for vacant leasehold properties met the definition of financial liabilities. These financial liabilities, which are denominated in sterling, were considered to be financial liabilities on which no interest is paid. This is because, in establishing the provisions, the cash flows were not discounted.

<i>Currency</i>	<i>Fixed rate financial liabilities Weighted average interest rate %</i>	<i>Weighted average period for which rate is fixed years</i>	<i>Financial liabilities on which no interest is paid Weighted average period until maturity years</i>
<b>At 31 December 2003</b>			
US dollars			
– Other borrowings	5.0	–	–
<b>At 30 December 2004</b>			
US dollars			
– Other borrowings	5.0	–	–
<b>At 30 December 2005</b>			
US dollars			
- Other borrowings	5.0	–	–

Floating rate financial liabilities bear interest at rates based on relevant national LIBOR equivalents.

Other borrowings on which no interest is paid represents a loan from shareholders of US \$29,000 (2004: US \$29,000, 2003: US \$29,000). In addition, at 30 December 2004, other borrowings included other amounts due to shareholders. (see note 14).

<i>Interest rate risk of financial assets</i>	<i>Cash at bank and in hand</i>		
	<i>31 December 2003</i>	<i>30 December 2004</i>	<i>30 December 2005</i>
Currency	US \$'000	US \$'000	US \$'000
Sterling	8	–	2
US dollars	26	68	285
Other currencies	57	50	38
<b>At end of year/period</b>	<u>91</u>	<u>118</u>	<u>325</u>

The cash at bank and in hand was placed with banks at a floating rate of interest based on market rates.

### **Maturity profile of financial liabilities**

The maturity profile of the carrying amount of the group's financial liabilities, other than short-term trade creditors and accruals during the period of the financial statements was as follows:

	<i>At 31 December 2003</i>			<i>At 30 December 2004</i>		
	<i>Debt US \$'000</i>	<i>Finance Leases US \$'000</i>	<i>Total US \$'000</i>	<i>Debt US \$'000</i>	<i>Other Financial Liabilities US \$'000</i>	<i>Total US \$'000</i>
Within one year, or on demand	4,768	9,257	14,025	8,576	8,386	16,962
	<u>4,768</u>	<u>9,257</u>	<u>14,025</u>	<u>8,576</u>	<u>8,386</u>	<u>16,962</u>
				<i>At 30 December 2005</i>		
				<i>Debt US \$'000</i>	<i>Other Financial Liabilities US \$'000</i>	<i>Total US \$'000</i>
Within one year, or on demand				2,561	9	2,570
Within two to five years				–	45	45
				<u>2,561</u>	<u>54</u>	<u>2,615</u>

Other financial liabilities includes the provisions for vacant leasehold properties of US \$986,000, US \$55,000 and US \$nil at 31 December 2003, 30 December 2004 and 30 December 2005 and the company's preference shares and warrants of US\$8,271,000, US\$ nil and US \$nil at 31 December 2003, 30 December 2004 and 30 December 2005 respectively.

### **Borrowing facilities**

The group has no undrawn committed borrowing facilities during the period covered by the financial statements.

### **Fair values of financial assets and financial liabilities**

The following table provides a comparison by category of the carrying amounts and the fair values of the group's financial assets and financial liabilities 31 December 2003, 30 December 2004 and 30

December 2005. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Market values are not available and accordingly, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. Set out below the table is a summary of methods and assumptions used for each category of financial instruments.

	<i>31 December 2003</i>		<i>30 December 2004</i>	
	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
	<i>US \$'000</i>	<i>US \$'000</i>	<i>US \$'000</i>	<i>US \$'000</i>
<b>Primary financial instruments held or issued to finance the group's operations:</b>				
Short-term borrowings	(4,768)	(4,768)	(8,576)	(8,576)
Other financial liabilities	(986)	(917)	(55)	(55)
Preference shares	(8,271)	(1,404)	(8,271)	(1,477)
Preference share warrants	–	(78)	(60)	(350)
Cash at bank and in hand	91	91	118	118
<b>Derivative financial instruments held to manage the interest rate and currency profile:</b>				
Forward foreign currency contracts	–	–	–	–

	<i>30 December 2005</i>	
	<i>Book value</i>	<i>Fair value</i>
	<i>US \$'000</i>	<i>US \$'000</i>
<b>Primary financial instruments held or issued to finance the group's operations:</b>		
Short-term borrowings	(2,561)	(2,561)
Other financial liabilities	(54)	(54)
Cash at bank and in hand	325	325
<b>Derivative financial instruments held to manage the interest rate and currency profile:</b>		
Forward foreign currency contracts	–	–

#### ***Summary of methods and assumptions***

Forward foreign currency contracts	Fair value is based on market price of comparable instruments at the balance sheet date.
Short-term deposits and borrowings	The fair value of short-term deposits, loans and overdrafts approximates the carrying amount because of the short maturity of these instruments. The fair value of accrued finance costs is also considered to approximate to the carrying value.
Other financial liabilities	The fair value of other financial liabilities has been calculated by discounting expected cash flows at prevailing rates.
Preference shares	The fair value of the company's preference shares is based on the latest available valuations of the shares by way of most recent trades in the shares or proposed issues of shares.
Preference share warrants	The fair value of the company's preference share warrants is based on the directors' assessment of their value taking into account restrictions on their exercise and conversion.

#### ***Currency exposures***

The tables below show the extent to which group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these monetary assets and liabilities are taken to the profit and loss account of the group.

Net foreign currency monetary assets/(liabilities)

	<i>Sterling</i> <i>US \$'000</i>	<i>US Dollars</i> <i>US \$'000</i>	<i>Other</i> <i>currencies</i> <i>US \$'000</i>	<i>Total</i> <i>US \$'000</i>
<b>31 December 2003</b>				
Local currency of group operation:				
Sterling	(2,328)	(5,546)	–	(7,874)
US dollars	–	–	–	–
Other currencies	–	885	(149)	736
<b>Total</b>	<u>(2,328)</u>	<u>(4,661)</u>	<u>(149)</u>	<u>(7,138)</u>
<b>30 December 2004</b>				
Local currency of group operation:				
Sterling	(3,222)	(5,692)	–	(8,914)
US dollars	–	–	–	–
Other currencies	–	(483)	(339)	(822)
<b>Total</b>	<u>(3,222)</u>	<u>(6,175)</u>	<u>(339)</u>	<u>(9,736)</u>
<b>30 December 2005</b>				
Local currency of group operation:				
Sterling	(3,222)	(5,692)	–	(8,914)
US dollars	–	–	–	–
Other currencies	–	(483)	(339)	(822)
<b>Total</b>	<u>(3,222)</u>	<u>(6,175)</u>	<u>(339)</u>	<u>(9,736)</u>

**Hedges**

The group has no financial instruments used as hedges during the period covered by the financial statements.

**17. Provisions for liabilities and charges**

	<i>Vacant</i> <i>properties</i> <i>US \$'000</i>
At 1 January 2003	1,487
Utilised in year	(501)
At 31 December 2003	986
Utilised in period	(405)
Released to the profit and loss account	(526)
At 30 December 2004	55
Utilised in year	(55)
At 30 December 2005	<u>–</u>

## Vacant properties

The provision for vacant properties represents the expected cost to the group of exiting certain leases.

	<i>31 December 2003 US \$'000</i>	<i>30 December 2004 US \$'000</i>	<i>30 December 2005 US \$'000</i>
<b>Maturity profile of provision</b>			
Within one year	986	55	–

## 18. Deferred tax

The group and company have unrecognised deferred tax assets as shown below:

	<i>31 December 2003 US \$'000</i>	<i>30 December 2004 US \$'000</i>	<i>30 December 2005 US \$'000</i>
<b>Unrecognised deferred tax asset</b>			
Other short term timing differences	296	16	16
Unutilised tax losses	<u>2,000</u>	<u>2,000</u>	<u>3,734</u>
	<u><u>2,296</u></u>	<u><u>2,016</u></u>	<u><u>3,750</u></u>

No deferred tax assets have been recognised as there is insufficient certainty that future taxable profits will arise.

## 19. Called up share capital

	<i>31 December 2003</i>		<i>30 December 2004</i>		<i>30 December 2005</i>	
	<i>Number</i>	<i>US \$'000</i>	<i>Number</i>	<i>US \$'000</i>	<i>Number</i>	<i>US \$'000</i>
<b>Authorised</b>						
Ordinary shares of 5p each	29,110,647	2,784	–	–	29,110,647	2,784
Deferred shares of 45p each	4,110,650	3,538	–	–	4,110,650	3,538
Ordinary shares of 1p each	120,000,000	1,860	130,000,000	2,052	–	–
Series 'A' preference shares of 1p each	45,200,726	701	45,200,726	701	–	–
Series 'B-1' preference shares of 1p each	21,397,256	332	21,397,256	332	–	–
Series 'B-2' preference shares of 1p each	8,734,502	135	8,734,502	135	–	–
Series 'C' preference shares of 0.1p each	1,500,000	<u>2</u>	2,000,000	<u>3</u>	–	–
		3,030		3,223		6,322
<b>Allotted, called up and fully paid</b>						
<b>Ordinary shares of 5p each</b>						
At beginning of year/period	–	–	–	–	–	–
Allotments in year	–	–	–	–	<u>20,721,242</u>	<u>1,981</u>
<b>At end of year/period</b>	–	–	–	–	20,721,242	1,981
<b>Deferred shares of 45p each</b>						
At beginning of year/period	–	–	–	–	–	–
Allotments in year	–	–	–	–	<u>2,271,333</u>	<u>1,955</u>
<b>At end of year/period</b>	–	–	–	–	2,271,333	1,955
<b>Ordinary shares of 1p each</b>						
At beginning of year/period	19,371,940	303	19,371,940	303	19,371,940	303
Converted to ordinary shares of 5p each	–	–	–	–	<u>(19,371,940)</u>	<u>(303)</u>
<b>At end of year/period</b>	<u><u>19,371,940</u></u>	<u><u>303</u></u>	<u><u>19,371,940</u></u>	<u><u>303</u></u>	–	–

	31 December 2003		30 December 2004		30 December 2005	
	Number	US \$'000	Number	US \$'000	Number	US \$'000
<b>Series 'A' preference shares of 1p each (non-equity)</b>						
At beginning of period/year	45,200,726	701	45,200,726	701	45,200,726	701
Converted to ordinary shares of 5p each	–	–	–	–	(45,200,726)	(701)
<b>At end of period/year</b>	<b>45,200,726</b>	<b>701</b>	<b>45,200,726</b>	<b>701</b>	<b>–</b>	<b>–</b>
<b>Series 'B-1' preference shares of 1p each (non-equity)</b>						
At beginning of year/period	12,786,960	198	13,002,226	202	13,002,226	202
Converted to ordinary shares of 5p each	215,266	4	–	–	(13,002,226)	(202)
<b>At end of year/period</b>	<b>13,002,226</b>	<b>202</b>	<b>13,002,226</b>	<b>202</b>	<b>–</b>	<b>–</b>
<b>Series 'B-2' preference shares of 1p each (non-equity)</b>						
At beginning of year/period	8,734,502	135	8,734,502	135	8,734,502	135
Converted to ordinary shares of 5p each	–	–	–	–	(8,734,502)	(135)
<b>At end of year/period</b>	<b>8,734,502</b>	<b>135</b>	<b>8,734,505</b>	<b>135</b>	<b>–</b>	<b>–</b>
<b>Series 'C' preference shares of 0.1p each (non-equity)</b>						
At beginning of year/period	–	–	471,402	1	471,402	1
Converted to ordinary shares of 5p each	471,402	1	–	–	(471,402)	(1)
<b>At end of year/period</b>	<b>471,402</b>	<b>1</b>	<b>471,402</b>	<b>1</b>	<b>–</b>	<b>–</b>
<b>Total share capital</b>		<b>1,342</b>		<b>1,342</b>		<b>3,936</b>

Pursuant to an extraordinary general meeting of the company held on 23 February 2005, the following changes to share capital were made:

- (a) Every 50 of the issued and unissued ordinary shares of 1p each were consolidated and subdivided into one new ordinary share of 5p each and one deferred share of 45p each. The deferred shares have no right to receive dividends or other distributions and have no right to participate on any return of capital or to vote.
- (b) Every 50 of the issued and unissued Series 'A' preference shares of 1p each, Series 'B-1' preference shares of 1p each and Series 'B-2' preference shares of 1p each were consolidated, converted and subdivided into one new ordinary share of 5p each and one deferred share of 45p each.
- (c) Every 500 of the issued and unissued Series 'C' preference shares of 0.1p each were consolidated, converted and subdivided into one new ordinary share of 5p each and one deferred share of 45p each.
- (d) Wild Investments Limited and a shareholder of the company converted loans with an aggregate carrying value of US \$4,500,000 into 6,597,223 ordinary shares of 5p each. In addition, the company's convertible loan stock converted into 4,503,205 ordinary shares of 5p each, in accordance with the terms of this loan stock set out in note 15.
- (e) An allotment of 541,234 ordinary shares of 5p each to the holders of preference shares in satisfaction of their conversion rights attaching to those preference shares.
- (f) Two directors of the company, together with a shareholder of the company, have provided guarantees to the bankers of the group, and in connection with this arrangement each were allotted 206,194 ordinary shares of 5p each.
- (g) On 2 March 2005, the company issued 6,730,900 ordinary shares of 5p each, at a placing price of 52p each, amounting to an aggregate cash consideration of £3,500,068. On the same date the whole of the company's ordinary share capital was admitted to trading on AIM, a market operated by the London Stock Exchange plc.

- (h) An increase in the authorised share capital of the company from £2,055,324.85 to £2,555,324.85 by the creation of 10,000,000 new ordinary shares of 5p each.

**Share options**

Share options were granted exercisable at 52p equal to 10 per cent. of the Company's issued share capital as at the date of admission to AIM. Of the share options granted, half were granted to directors of the company, being 2 per cent granted to R M Stear (414,424), and 11/2 per cent. each to R A Court (310,818) and JE Hutchinson (310,818).

**Description of shares**

The company's deferred shares have no rights to dividends or voting rights.

**20. Share premium account and merger reserve**

	<i>Share premium account US</i>	<i>Merger reserve US \$'000</i>
<b>As at 1 January 2003</b>	6,716	1,947
Premium on shares issued		
– Series 'B-1' preference shares	46	–
– Series 'C' preference shares	470	–
	<u>7,232</u>	<u>1,947</u>
<b>At 31 December 2003 and 31 December 2004</b>	<u>7,232</u>	<u>1,947</u>
Premium on shares issued		
– Ordinary shares	12,116	–
– Share issue costs	(2,296)	–
	<u>17,052</u>	<u>1,947</u>
<b>At 30 December 2005</b>	<u>17,052</u>	<u>1,947</u>

The share premium account arose from the issue of equity shares during the year, the conversion of shareholder loans, convertible loan stock and the issues of non-equity shares in prior years. A merger reserve has been established in respect of previous acquisitions which qualify for Section 131 merger relief.

## 21. Profit and loss account reserve and other reserve

	<i>Other reserve</i>	<i>Profit and loss account reserve</i>
As at 1 January 2003	–	(3,182)
Loss for the year	–	(13,781)
Currency translation differences on net investment in foreign subsidiaries	–	(129)
<b>As at 31 December 2003</b>	–	(17,092)
Net proceeds from non-equity share warrants issued	60	–
Loss for the period	–	(1,966)
Currency translation differences on net investment in foreign subsidiaries	–	(600)
<b>At 30 December 2004</b>	60	(19,658)
Loss for the year	–	(4,299)
Currency translation differences on net investment in foreign subsidiaries	–	713
<b>At 30 December 2005</b>	<u>60</u>	<u>(23,244)</u>

Net proceeds of US\$60,000 have been attributed to an issue of warrants in a prior year and this amount has been included within shareholders' funds as an other reserve.

## 22. Reconciliation of movements in shareholders' deficit

	<i>Year ended 30 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
Loss for the financial year/period	(13,781)	(1,966)	(4,299)
Currency translation differences on net investment in foreign subsidiaries	(129)	(600)	713
Net proceeds from equity shares issued	–	–	4,354
Conversion of loans to equity shares	–	–	8,060
Net proceeds from non-equity share warrants issued	521	60	–
Net increase/(decrease) in shareholders' funds	(13,389)	(2,506)	8,828
Opening shareholders' deficit	6,818	(6,571)	(9,077)
Closing shareholders' deficit	<u>(6,571)</u>	<u>(9,077)</u>	<u>(249)</u>

### 23. Cash flow from operating activities

Reconciliation of operating loss to net cash outflow from operating activities:

	<i>Year ended 31 December 2003 US \$'000</i>	<i>Period ended 30 December 2004 US \$'000</i>	<i>Year ended 30 December 2005 US \$'000</i>
Operating loss	(11,929)	(692)	(4,418)
Depreciation charge	182	230	199
Loss on disposal of fixed assets	17	–	–
Goodwill amortisation	2,173	–	–
Goodwill impairment	7,606	–	–
Increase in stocks	84	(54)	(698)
Increase in debtors	(212)	(1,351)	(196)
(Decrease)/increase in creditors	553	421	(1,038)
Decrease in provisions	(501)	(931)	(55)
Total net cash outflow from operating activities	<u>(2,027)</u>	<u>(2,377)</u>	<u>(6,206)</u>

### 24. Analysis of net debt

	<i>1 January 2003 US \$'000</i>	<i>Cash flow US \$'000</i>	<i>Non-cash US \$'000</i>	<i>31 December 2003 US \$'000</i>
Cash at bank and in hand	47	44	–	91
Bank overdraft	–	(624)	–	(624)
Net cash/(overdraft)	47	(580)	–	(533)
Debt due within one year				
- Finance leases	(19)	19	–	–
- Other loans	(1,038)	(1,008)	(2,098)	(4,144)
	<u>(1,057)</u>	<u>(989)</u>	<u>(2,098)</u>	<u>(4,144)</u>
	<u>(1,010)</u>	<u>(1,569)</u>	<u>(2,098)</u>	<u>(4,677)</u>

Non-cash changes noted above represent finance costs and accrued interest costs incurred during the year which have been included within the carrying value of amounts borrowed.

	<i>1 January 2004 US \$'000</i>	<i>Cash flow US \$'000</i>	<i>Non-cash changes US \$'000</i>	<i>30 December 2004 US \$'000</i>
Cash at bank and in hand	91	27	–	118
Bank overdraft	(624)	(1,288)	–	(1,912)
Net overdraft	(533)	(1,261)	–	(1,794)
Debt due within one year				
- Convertible loan stock	–	(635)	–	(635)
- Other loans	(4,144)	(696)	(1,189)	(6,029)
	<u>(4,144)</u>	<u>(1,331)</u>	<u>(1,189)</u>	<u>(6,664)</u>
	<u>(4,677)</u>	<u>(2,592)</u>	<u>(1,189)</u>	<u>(8,458)</u>

Non-cash changes noted above represent accrued finance and interest costs incurred during the period which have been included within the carrying value of amounts borrowed.

	<i>31 December</i> 2004 <i>US \$'000</i>	<i>Cash flow</i> <i>US \$'000</i>	<i>Non-cash</i> <i>changes</i> <i>US \$'000</i>	<i>Exchange</i> <i>movements</i>	<i>30 December</i> 2005 <i>US \$'000</i>
Cash at bank and in hand	118	213	–	(6)	325
Bank overdraft	(1,912)	179	–	200	(1,533)
Net overdraft	(1,794)	392	–	194	(1,208)
Debt due within one year:					
- Convertible loan stock	(635)	(2,819)	3,454	–	–
- Other loans	(6,029)	455	4,546	–	(1,028)
- Finance leases	–	1	(10)	–	(9)
Debt due over one year:					
- Finance leases	–	–	(45)	–	(45)
	(6,664)	(2,363)	7,945	194	(1,082)
	(8,458)	(1,971)	7,945	194	(2,290)

Non-cash changes noted above represent conversion of loans to equity shares and accrued finance and interest costs incurred during the year which have been included within the carrying value of amounts borrowed.

	<i>Year ended</i> <i>31 December</i> 2003 <i>US \$'000</i>	<i>Period ended</i> <i>30 December</i> 2004 <i>US \$'000</i>	<i>Year ended</i> <i>30 December</i> 2005 <i>US \$'000</i>
<b>Movement in borrowings</b>			
Debt due within one year:			
New convertible loan stock	–	635	–
New other loans	1,029	746	
Repayments of other loans	(21)	(50)	(455)
(Decrease)/increase in borrowings	1,008	1,331	(455)
Capital element of finance lease payment	(19)	–	(1)
<b>Cash (outflow)/inflow</b>	989	1,331	(456)

## 25. Pension commitments

The group operates a defined contribution pension arrangement, the Freeplay Market Development Provident Fund, in which South African employees are eligible to participate. The funds are invested with Liberty Life Limited, in a separately held and administered fund.

The group contribution rates are 15 per cent. of eligible salary costs. The amount charged to the group profit and loss account in respect of these arrangements for the year ended 31 December 2003 amounted to US\$109,000, period ended 30 December 2004: US\$84,000 and for the year ended 30 December 2005 amounted to US\$71,000.

There are no other pension arrangements for employees.

## 26. Directors' interests in ordinary shares

The interests of the directors at the end of the year in the ordinary and deferred shares and share options were as follows:

### Number of shares at 31 December 2003

	<i>1p ordinary shares</i>	<i>1p ordinary shares warrants</i>	<i>Series 'A' 1p preference shares</i>	<i>Series 'B-1' 1p preference shares</i>	<i>Series 'B-2' 1p preference shares</i>	<i>Series 'C' 0.1p preference shares</i>	<i>Series 'C' 0.1p preference share warrants</i>
R M Stear (Note 1)	2,025,022	91,912	1,783,969	669,348	–	251,143	218,857
T G Roddick (Note 2)	1,921,949	391,912	9,753,596	3,343,731	–	14,286	235,714
T C Barry	–	–	–	–	–	–	–
Baroness L Chalker of Wallasey	47,333	–	–	–	124,840	–	–
L J Fassler (Note 3)	268,173	–	1,457,785	586,319	–	6,857	68,143
D W Wiederecht	–	–	–	–	–	–	–

Note 1: The beneficial interests of R M Stear shown above are held by Rathbone Trustees Jersey Limited.

Note 2: Shares held jointly with his wife, A Roddick.

Note 3: Shares are held by Sage Equities Inc., which is controlled by L J Fassler's son.

### Number of shares at 30 December 2004

	<i>1p ordinary shares</i>	<i>1p ordinary shares warrants</i>	<i>Series 'A' 1p preference shares</i>	<i>Series 'B-1' 1p preference shares</i>	<i>Series 'B-2' 1p preference shares</i>	<i>Series 'C' 0.1p preference shares</i>	<i>Series 'C' 0.1p preference share warrants</i>
R M Stear (Note 1)	2,025,022	91,912	1,783,969	669,348	–	251,143	218,857
T G Roddick (Note 2)	1,921,949	391,912	9,753,596	3,343,731	–	14,286	235,714
Baroness L Chalker of Wallasey	47,333	–	–	–	124,840	–	–
R A Court (Note 4)	–	–	–	–	–	–	–
L J Fassler (Note 3)	268,173	–	1,457,785	586,319	–	6,857	68,143
J E Hutchinson (Note 4)	65,833	–	–	–	–	–	–

Note 1: The beneficial interests of R M Stear shown above are held by Rathbone Trustees Jersey Limited.

Note 2: Shares held jointly with his wife, A Roddick.

Note 3: Shares are held by Sage Equities Inc., which is controlled by L J Fassler's son.

Note 4: Number of shares stated above were held at date of appointment.

### Number of shares at 30 December 2005

	<i>5p ordinary shares</i>	<i>45p deferred shares</i>	<i>5p ordinary share options (Note 4)</i>
R M Stear (Note 1)	1,411,713	205,519	414,425
T G Roddick (Note 2)	1,494,565	371,704	–
Baroness L Chalker of Wallasey	3,846	3,846	–
R A Court	–	–	310,819
A Polansky	–	–	–
L J Fassler (Note 3)	357,963	66,296	–
E Hutchinson	1,317	1,317	310,819

Note 1: The beneficial interests of R M Stear shown above are held by Rathbone Trustees Jersey Limited and Wild Investments Limited.

Note 2: Shares held jointly with his wife, A Roddick and held by Wild Investments Limited.

Note 3: Shares are held by Sage Equities Inc., which is controlled by L J Fassler's son and Wild Investments Limited.

Note 4: Share options are exercisable at 52 pence per share.

Apart from the interests disclosed above, none of the directors at the end of the financial year had any interest in the ordinary or deferred shares of any group undertaking at the end of the financial year, or at any time during the financial year/subsequent to their appointment as a director of the company.

## Operating lease commitments

For the period covered by the financial statements the group has lease agreements in respect of properties for which the payments extend over a number of years.

	31 December 2003 US \$'000	30 December 2004 US \$'000	30 December 2005 US \$'000
<b>Annual commitments under non-cancelling operating leases expiring:</b>			
Within one year	31	186	246
Within two to five years	–	127	252
After five years	411	–	–
	<u>442</u>	<u>313</u>	<u>498</u>

## 27. Other financial commitments

### *Security over assets*

On 24 October 2005 the company and its subsidiaries registered in England and Wales granted an unlimited composite company guarantee to HSBC Bank plc.

At the end of the financial year ended on 30 December 2005 there were US \$255,825 (2004: US\$nil, 2003: US\$nil) funds committed by way of letters of credit.

## 28. Post balance sheet events

### *Acquisition of Barrett Marketing Group*

On 17 May 2006, the Company entered into a conditional agreement to acquire 100 per cent. of the issued share capital of Barrett Marketing Group Inc (“BMGI”), subject, *inter alia*, to shareholder approval. Dixie Sales Company Inc. (“Dixie”) is a wholly owned subsidiary of BMGI. Dixie is an established sales, marketing, distribution and customer service provider based in Greensboro, North Carolina, USA. Dixie provides a full range of services to its customers and suppliers, which includes customer and supplier account management, customer and supplier logistics, consumer call centre services and technical services such as training and education to customers. Dixie’s core business includes the sales and marketing of parts to the lawn and garden industry, hand held power tools, generators and as a distributor for wholesale goods such as scooters, quad bikes, go-karts and hand held lawn and garden equipment on behalf of manufacturers. In addition, Dixie provides brand building, sales and marketing support, order management and distribution services for all of Freeplay’s products in North America and Caribbean countries.

On 23 June 2006, Freeplay announced that subject to shareholder approval that it has raised \$4.67 million (£2.54 million) (net of expenses) through a placing with institutional and other investors.

The Acquisition and the Placing are conditional upon a number of matters, including the approval of Freeplay’s shareholders at an extraordinary general meeting to be held on 17 July 2006.

## 29. Related party transactions

The group has taken advantage of the exemption offered by FRS 8 (“Related Party Disclosures”), in respect of subsidiaries, 90 per cent or more whose voting rights are controlled within a group. Consequently, the financial statements do not include disclosure of transactions with entities which are included within the consolidated financial statements. Other related party transactions are set out below.

### *Transactions with shareholders*

#### (a) Shareholder loans

Shareholder loans (excluding convertible loan stock) amounted to US\$29,000 at 30 December 2005 (2004: US\$4,618,000, 2003: US\$3,555,000).

Shareholder loans of US\$4,599,000 comprising US\$3,076,000 owing to Wild Investments Limited and other loans of US\$1,523,000 at 30 December 2004 (see note 14), were converted into 4,166,667 and 2,430,556 ordinary shares of 5p each respectively on 2 March 2005. In addition, the company’s convertible loan stock converted into 4,503,205 ordinary shares of 5p each, in accordance with the terms of this loan stock on 2 March 2005.

#### (b) Wild Investments Limited

Wild Investments Limited is a company registered in Jersey and is controlled by certain shareholders of Freeplay Energy PLC. The interests of certain directors of the company in Wild Investments Limited are as follows:

	<i>Interests in £1 ordinary shares at 31 December 2003</i>		<i>Interests in £1 ordinary shares at 30 December 2004</i>		<i>Interests in £1 ordinary shares at 30 December 2005</i>	
	<i>Number</i>	<i>Per cent of issued share capital</i>	<i>Number</i>	<i>Per cent of issued share capital</i>	<i>Number</i>	<i>Per cent of issued share capital</i>
T G Roddick	24	24	24	24	24	24
R M Stear (note 1)	22	22	22	22	22	22
L J Fassler (note 2)	7	7	7	7	7	7
	<u>53</u>	<u>53</u>	<u>53</u>	<u>53</u>	<u>53</u>	<u>53</u>

Note 1: The beneficial interests of R M Stear shown above are held by Rathbone Trustees Jersey Limited.

Note 2: Shares are held by Sage Equities Inc., which is controlled by L J Fassler’s son.

As noted above, during the year amounts owed to Wild Investments Limited were converted into ordinary shares of the company.

### *Freeplay Foundation*

Freeplay Foundation is a company limited by guarantee and registered in England and Wales. The Foundation is a non-profit organisation whose key aim is to promote alternative energy solutions, and provides the group with contacts and greater access to the humanitarian aid market and the Developing World. Whilst the Freeplay Foundation operates as a separate organisation, certain directors of Freeplay Energy plc who served during the year ended 30 December 2005, and certain shareholders of Freeplay Energy plc serve on the Council of Management of Freeplay Foundation. Freeplay Foundation receives certain management, finance, administration and support services from the group and receives an annual grant from the group which is used to fund overheads including the salary costs of the Executive Director of the Foundation. The grant amounted to US\$150,000 for the year ended 31 December 2003, US\$150,000 for the period ended 30 December 2004 and US\$150,000 for the year ended 30 December 2005.

### *Transactions with directors*

#### **(a) Year ended 31 December 2003**

A loan of US\$167,000 (2002: US\$188,000) remained outstanding at 31 December 2003 from C M A Staines, a former director of Freeplay Energy Holdings Limited. Interest was payable on the loan at a rate linked to bank base rates.

During the year, a director of the Company, R M Stear, provided a guarantee to the bankers of a subsidiary of the Group, up to a maximum amount of £65,000.

During the year, two directors of the Company, R M Stear and T G Roddick, together with a shareholder of the Company, provided guarantees to the bankers of the Company, up to a maximum amount of £300,000. In connection with this arrangement, a fee of US\$20,000 is payable to each of R M Stear, T G Roddick and the shareholder. The fee was payable on 5 July 2004.

During the year a director, R M Stear, advanced the Group interest free loans totalling US\$220,000. These loans were settled by 31 December 2003 by way of the director subscribing to an issue of Series 'C' preference shares for an aggregate consideration of US\$220,000 at a value of US\$1.0 per share. In addition, T G Roddick and R M Stear have respectively subscribed for 14,286 and 109,741 Series 'C' 0.1p preference shares during the year for an aggregate cash consideration of US\$14,286 and US\$109,741 respectively, amounting to a value of US\$1.0 per share.

#### **(b) Period ended 31 December 2004**

A loan of US\$117,000 (2003: US\$167,000) remained outstanding at 30 December 2004 from C M A Staines, a former director of Freeplay Energy Holdings Limited. Interest was payable on the loan at a rate linked to bank base rates.

During the year ended 31 December 2003, a director of the company, R M Stear, provided a guarantee to the bankers of a subsidiary of the group, up to a maximum amount of £65,000.

During the year ended 31 December 2003, two directors of the company, R M Stear and T G Roddick, together with a shareholder of the company, provided guarantees to the bankers of the company, up to a maximum amount of £300,000. In connection with this arrangement, a fee of US\$20,000 was payable to each of R M Stear, T G Roddick and the shareholder. The fee was payable on 5 July 2004.

During the year ended 31 December 2003 a director, R M Stear, advanced the group interest free loans totalling US\$220,000. These loans were settled by 31 December 2003 by way of the director subscribing to an issue of Series 'C' preference shares for an aggregate cash consideration of US\$220,000 at a value of US\$1.0 per share. In addition, T G Roddick and R M Stear respectively subscribed for 14,286 and 109,741 Series 'C' 0.1p preference shares during the year ended 31 December 2003 for an aggregate cash consideration of US\$14,286 and US\$109,741 respectively, amounting to a value of US\$1.0 per share.

Two directors of the company, R M Stear and T G Roddick, together with another shareholder of the company, have provided guarantees to the bankers of the company, up to a maximum amount of £1,000,000. In connection with this arrangement, R M Stear, T G Roddick and the shareholder received 2 per cent. of the share capital when the company's shares were listed on a recognised investment exchange.

During the period two directors, R M Stear and T G Roddick, advanced the group loans totalling US\$115,000 and US\$223,000 respectively. Interest is payable on these loans at a fixed rate of 2% per month.

**(c) Year ended 30 December 2005**

A loan of US\$117,000 from C M A Staines, a former director of Freeplay Energy Holdings Limited was repaid during the year. Interest was payable on the loan at a rate linked to bank base rates.

Two directors of the company, together with a shareholder of the company, have provided guarantees to the bankers of the group, and in connection with this arrangement each were allotted 206,194 ordinary shares of 5p each.

During the period two directors, R M Stear and T G Roddick, were repaid loans totalling US\$115,000 and US\$223,000 respectively. Interest was payable on these loans at a fixed rate of 2 per cent. per month.

## PART VI

### PRO-FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

Set out below is an unaudited pro-forma net asset statement based on the consolidated net assets of the Company as at 30 December 2005. The unaudited pro-forma statement of net assets is prepared for illustrative purposes only to show the effect of the Placing and the Acquisition on the Company as if they had occurred on 30 December 2005. Because of the nature of pro-forma information, this information addresses a hypothetical situation and does not therefore represent the actual financial position or results of the Company.

The statement of pro-forma net assets set out below is based on the unaudited consolidated balance sheet of the Group for the year ended 31 December 2005, after making the adjustments on the basis described in the notes below. The historical financial information of the Company and BMGI has been prepared in accordance with UK GAAP and is presented in US dollars. The notes below form an integral part of the pro-forma statement of net assets.

	<i>Freeplay</i> <i>(Note 1)</i> \$'000	<i>BMGI</i> <i>(Note 2)</i> \$'000	<i>Adjustments</i> <i>(Notes 3 to 5)</i> \$'000	<i>Pro-forma</i> <i>net assets</i> \$'000
<b>Fixed assets</b>				
Intangible assets	–	306	7,345	7,651
Tangible assets	651	975	–	1,626
Investment in joint venture	–	25	–	25
	<u>651</u>	<u>1,306</u>	<u>7,345</u>	<u>9,302</u>
<b>Current assets</b>				
Stock	838	10,655	–	11,493
Debtors	2,643	6,234	(952)	7,925
Cash at bank and in hand	325	257	4,677	5,259
	<u>3,806</u>	<u>17,146</u>	<u>3,725</u>	<u>24,677</u>
Creditors – amount falling due in less than one year	<u>(4,661)</u>	<u>(16,795)</u>	<u>2,731</u>	<u>(18,725)</u>
Net current assets/(liabilities)	<u>(855)</u>	<u>351</u>	<u>6,456</u>	<u>5,952</u>
Total assets less current liabilities	<u>(204)</u>	<u>1,657</u>	<u>13,801</u>	<u>15,254</u>
Creditors – amounts falling due in more than one year	(45)	(1,090)	(177)	(1,312)
Provisions for liabilities and charges	–	(145)	–	(145)
Net assets	<u><u>(249)</u></u>	<u><u>422</u></u>	<u><u>13,624</u></u>	<u><u>13,797</u></u>

Notes

1. The net assets of Freeplay at 30 December 2005 have been extracted without material adjustment from the financial information on Freeplay in Part V of this document.
2. The net assets of BMGI at 31 December 2005 have been extracted without material adjustment from the financial information on BMGI in Part IV of this document.
3. Adjustment to cash at bank and in hand
 

	<i>\$'000</i>
Gross proceeds of the Placing	6,081
Expenses in connection with the proposals	<u>(1,404)</u>
Proforma cash balance	<u><u>4,677</u></u>
4. The goodwill arising on the acquisition of BMGI is calculated as follows:
 

	<i>\$'000</i>
Consideration issued to BMG:	
Fair value of shares issued	9,369
Promissory note	<u>1,084</u>
	<u>10,453</u>
Net assets of BMGI	422
Less: amounts owed by BMG group undertakings	(952)
Add: amounts due to BMG group undertakings	2,588
Add: amounts due to former shareholders of Dixie	<u>1,050</u>
	<u>3,108</u>
Goodwill arising on acquisition	<u><u>7,345</u></u>
5. Adjustments to debtors
 

	<i>\$'000</i>
Amounts owed to BMG group undertakings	<u>(952)</u>
6. Adjustments to creditors – amounts falling due within one year
 

	<i>\$'000</i>
Amounts due to BMG group undertakings	2,588
Amounts due to former shareholders of Dixie	<u>143</u>
	<u><u>2,731</u></u>
7. Adjustments to creditors – amounts falling due after more than one year
 

	<i>\$'000</i>
Amounts due to former shareholders of Dixie	907
Promissory note issued by Freeplay to BMG	<u>(1,084)</u>
	<u><u>(177)</u></u>
8. No account has been taken of trading or any other events in Freeplay since 30 December 2005 or BMGI since 31 December 2005 other than included above.
9. The £/\$ exchange rate used is 1.84.

## PART VII

### ADDITIONAL INFORMATION

#### 1. Incorporation and Status of the Company

- (a) The Company was incorporated under the laws of England and Wales on 21 May 2001 (company number 4220065), with the name Fieldbury plc under the Companies Acts 1985 to 1989. The Company's name was changed to Freeplay Energy plc on 20 June 2002. The registered office of the Company is at 2 Stone Buildings, Lincolns Inn, London WC2A 3TH. The Company is a public limited company, the liability of the members being limited by shares.
- (b) The Company is the ultimate holding company of the Freeplay Energy Group. Details of its subsidiaries are as follows:
- (i) Summerspark Limited (company number 5290608) is a wholly owned subsidiary of the Company; it was incorporated on 18 November 2004 under the Companies Act 1985; its registered office is at 2 Stone Buildings, Lincolns Inn, London WC2A 3TH; the liability of its members is limited by shares;
  - (ii) Baylis Generators Limited (company number 2902375) is a wholly owned subsidiary of Summerspark Limited; it was incorporated on 24 February 1994 under the Companies Act 1985; its registered office is at 2 Stone Buildings, Lincolns Inn, London WC2A 3TH; the liability of its members is limited by shares;
  - (iii) Freeplay Market Development Limited (company number 3078973) is a wholly owned subsidiary of Summerspark Limited; it was incorporated on 12 July 1995 under the Companies Acts 1985 to 1989 with the name of Palmplace Limited; it changed its name to 'BayGen Power International Limited' on 7 August 1995, to 'Freeplay Management Services Limited' on 12 January 1999 and to its current name on 20 July 1999; the liability of its members is limited by shares;
  - (iv) Freeplay Asia Limited (company number 749401) is owned as to 50 per cent. by the Company and as to 50 per cent. by Freeplay Market Development Limited; it was incorporated on 7 March 2001 under the laws of Hong Kong; and
  - (v) Freeplay Market Development (Pty) Ltd (company number 2000/022228/07) is a wholly owned subsidiary of Freeplay Market Development Limited; it was incorporated on 31 August 2000 under the laws of the Republic of South Africa.
- (c) On Admission, the Company will, pursuant to the Acquisition Agreement summarised in paragraph 7.1(b) of Part VII of this document, acquire the entire issued share capital of Barrett Marketing Group Inc. a company incorporated in Maine US and which through its wholly owned subsidiary BDS owns 100 per cent. of Dixie. Dixie was incorporated in North Carolina, US on 27 June 1950. Dixie's registered office is at 230 Elm Street, 2000 Renaissance Plaza, Greensboro, North Carolina, US. Dixie also owns 50 per cent. of the issued share capital of Mower MD.
- (d) The Company's principal activity is the operation of a holding company.
- (e) The Company has no administrative, management and supervisory bodies other than the Board of Directors, the remuneration committee and the audit committee. The operating board consists of those individuals whose biographies are included in paragraph 6 of Part I of this document.

#### 2. Share Capital and Securities being offered and re-admitted to trading on AIM

- (a) The Ordinary Shares are ordinary shares of 5 pence each in the capital of the Company. They were created under the Companies Acts 1946 to 1985, and are subject to the Act. They are to be issued in British Pounds Sterling with International Security Identification Number ("ISIN"): GB00B010Q778.

- (b) The authorised and issued share capital of the Company at the date of this document and as it is expected to be immediately following Admission is set out below:

	<i>At the date of this document</i>			
	<i>Authorised share capital</i>		<i>Issued and fully paid share capital</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
Ordinary shares	29,110,647	£1,455,532.35	20,721,242	£1,036,062.10
Deferred Shares	4,110,650	£1,849,792.50	1,730,098	£778,544.10

	<i>Following Admission</i>			
	<i>Authorised share capital</i>		<i>Issued and fully paid share capital</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
Ordinary shares	100,000,000	£5,000,000.00	49,801,868	£2,490,093.40
Deferred Shares	4,110,650	£1,849,792.50	1,730,098	£778,544.10

- (c) The authorised share capital of the Company on incorporation was £50,000 divided into 50,000 shares of £1 each.
- (d) Since the date of incorporation of the Company there have been the following changes in the authorised and issued share capital of the Company:
- (i) By an ordinary resolution passed on 8 July 2002, the Company subdivided each of its issued and unissued ordinary shares of £1 each into 100 ordinary shares of 1p each;
  - (ii) By an ordinary resolution passed on 8 July 2002, the Company increased its authorised share capital from £50,000 to £360,000 by the creation of 31,000,000 new ordinary shares of 1p each;
  - (iii) By an ordinary resolution passed on 3 September 2002, the Company increased its authorised share capital from £360,000 to £1,953,324.85 by the creation of 84,000,000 ordinary shares of 1p each, 45,200,727 Series A Preference Shares of 1p each, 21,397,256 Series B-1 Preference Shares of 1p each and 8,734,502 Series B-2 Preference Shares of 1p each;
  - (iv) By an ordinary resolution passed on 17 February 2003, the Company increased its authorised share capital from £1,953,324.85 to £1,954,824.85 by the creation of 1,500,000 Series C Preference Shares of 0.1p;
  - (v) By an ordinary resolution passed on 23 March 2004, the Company increased its authorised share capital from £1,954,824.85 to £1,955,324.85 by the creation of 500,000 Series C Preference Shares of 0.1p;
  - (vi) By an ordinary resolution passed on 12 July 2004, the Company increased its authorised share capital from £1,955,324.85 to £2,055,324.85 by the creation of 10,000,000 Ordinary Shares;
  - (vii) On 23 February 2005 an extraordinary general meeting of the Company was held at which resolutions were passed (to take effect subject to Admission taking place and a minimum of US\$5,000,000 gross proceeds being raised from the Placing) to achieve the following:
    - (a) the consolidation, conversion and sub-division of the old ordinary shares of 1p each and the Preference Shares into Ordinary Shares and Deferred Shares;
    - (b) the allotment, as a capitalisation of the share premium account, of Ordinary Shares to the holders of Preference Shares in satisfaction of the conversion rights attaching to the Preference Shares;

- (c) authority pursuant to Section 80 of the Act was granted to the directors for the following allotments (by nominal value):
  - (i) £27,061.70 in connection with the capitalisation of the share premium account;
  - (ii) £329,861.15 in connection with the capitalisation of loans to the Company made to the Company by Wild Investments Limited and the General Electric Pension Trust;
  - (iii) £225,160.25 in connection with the conversion of the certain loan notes into Ordinary Shares;
  - (iv) £30,929.10 in connection with the allotment and issue of Ordinary Shares to Vincent Mai, Gordon and Anita Roddick and Rory Stear in relation to the guarantees provided by them for the Company's bank facilities;
  - (v) £400,000 in connection with the placing of Ordinary Shares pursuant to the Placing Agreement;
  - (vi) an amount equal to the nominal value of 5 per cent. of the Company's issued share capital as at the date of Admission in respect of options to subscribe for New Ordinary Shares to be granted in connection with Admission; and
  - (vii) an amount equal to the nominal value of 5 per cent. of the Company's issued share capital as at the date of Admission in respect of options to be granted pursuant to the Company's employee share option scheme.
- (e) The Ordinary Shares may be held in certificated form or under the CREST system, which is a paperless settlement procedure in accordance with the Uncertificated Securities Regulations 2001 enabling securities to be evidenced and transferred otherwise than by a written instrument. The Company's registrars Capita Registrars are responsible for keeping the Company's register of members.
- (f) The dividend and voting rights attaching to the Ordinary Shares are set out in paragraph 3.6 of this Part VII.
- (g) Section 89(1) of the Act gives the Company's shareholders pre-emption rights on any new issue of Equity Securities for cash by the Company except for issues of shares under an employee share scheme, to the extent that such pre-emption rights have not been disapplied by a special resolution passed pursuant to section 95 of the Act. By a special resolution to be proposed at the EGM on 17 July 2006, the Directors will be authorised to allot the following shares non pre-emptively:
  - (i) the Consideration Shares;
  - (ii) the Placing Shares;
  - (iii) up to 10 per cent. of the Company's issued share capital pursuant to the terms of the Share Option Scheme; and
  - (iv) equity securities up to a maximum aggregate nominal value of £249,009.34.
- (h) The Ordinary Shares have no right to share in the profits of the Company other than through a dividend, distribution or return of capital, further details of which are set out in paragraph 3 of this Part VII.
- (i) The Ordinary Shares are entitled on a *pari passu* basis with all issued Ordinary Shares to share in any surplus on a liquidation of the Company.
- (j) The Ordinary Shares have no redemption or conversion rights.

- (k) It is anticipated that the Consideration Shares and the Placing Shares will be issued on 20 July 2006, the anticipated date of Admission.
- (l) The Placing Shares and the Consideration Shares will be freely transferable provided that such shares are fully paid, the Company has no lien over such shares, the instrument of transfer is duly stamped, is in favour of not more than four joint holders as transferees and is in respect of only one class of shares, and the transfer procedure set out at paragraph 3.2 of this Part VII has been complied with. Transfer restrictions may apply to shares where a member has failed to comply with a notice requesting information served by the Company under section 212 of the Act.
- (m) No person has made a public takeover bid for the Company's issued share capital since the Company's incorporation. In the event an offeror makes an offer to acquire all the shares, or all the shares of any class or classes, in a company and acquires at least nine-tenths in value of the issued share capital of the Company to which the offer relates, the offeror may in accordance with the procedure set out in sections 428-430 of the Act require the holders of any shares to which the offer relates that he has not acquired to sell them subject to the terms of the offer, and such shareholders may in turn require the offeror to purchase such shares on the same terms.
- (n) A shareholder is required pursuant to sections 198 to 210 of the Act to notify the Company when he acquires or disposes of a material interest in shares in the capital of the Company equal to or in excess of 3 per cent. of the nominal value of that share capital (and thereafter any whole percentage change in such interests).
- (o) The Placing Shares and the Consideration Shares in issue following Admission will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after Admission on the Ordinary Share capital.
- (p) Save as disclosed in this document, there has been no issue of share or loan capital of the Company or any other member of the Group (other than intra-group issues by wholly owned subsidiaries) in the three years immediately preceding the date of this document and (other than pursuant to the Acquisition, the Placing the issue of options over Ordinary Shares under the Scheme and the other options referred to in paragraph 9 of this Part VII) no such issues are proposed.
- (q) Article 17 of the Company's articles of association permits the Company to issue shares in uncertificated form.
- (r) The nominal value of the Ordinary Shares is 5 pence and they are being placed at a premium of 24 pence per Ordinary Share.
- (s) There are no Ordinary Shares not representing share capital of the Company and neither the Company nor its subsidiaries hold any Ordinary Shares.
- (t) Save in respect of the Placing, the exercise of options under the Scheme described in paragraph 9 of this Part VII, the exercise of the other options described in paragraph 9 of this Part VII and the issue of the Consideration Shares as described in paragraph 7.1(b) of this Part VII the Directors have (i) no present intention to issue, (ii) nor are they aware of any obligations over, any of the authorised but unissued share capital of the Company.
- (u) Save as disclosed in this document no founders, management or deferred shares have been issued by the Company.

### **3. Memorandum and Articles of Association**

The memorandum of association of the Company provides that the Company's principal object is to act as a general commercial company. The objects of the Company are set out in full in clause 4 of the memorandum of association.

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

### **3.1 Variation of Rights**

Subject to the provisions of the Act, if the capital of the Company is divided into different classes of shares, the rights attached to any class may be varied, whether or not the Company is being wound up. The variation requires the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class. The provisions of the Articles relating to general meetings of the Company shall apply to every such separate meeting of the holders of a class of shares, except that the necessary quorum at any such meeting shall be two persons at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class in question.

### **3.2 Transfer of Shares**

Any Shareholder may transfer his shares in writing in the usual common form or in any other form which the directors may approve. The instrument of transfer shall be signed by the transferor and (in the case of partly paid shares) by the transferee. The directors may without giving any reason, decline to register any transfer of any share that is not fully paid up, provided that this does not prevent dealings in the shares from taking place on an open and proper basis. The directors may also refuse to register a transfer unless (i) the instrument of transfer is duly stamped and is deposited at the Company's office, accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer provided that in the case of a transfer by a stock exchange nominee the lodgement of a share certificate will only be necessary if a certificate has been issued in respect of the share in question, (ii) it is in respect of one class only and (iii) it is in favour of not more than four transferees.

### **3.3 Alteration or increase of capital**

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its capital into shares of larger amount, cancel any shares which have not been taken or agreed to be taken by any person and sub-divide its shares into shares of a smaller amount.

The Company may, subject to the provisions of the Act, by special resolution reduce its share capital, any capital redemption reserve or any share premium account. Subject to the provisions of the Act, the Company may purchase its own shares (including redeemable shares) provided that if there are any convertible shares in issue no purchase by the Company of any of its own shares may be made unless it has been sanctioned by an extraordinary resolution passed at a separate meeting of the holders of the convertible shares.

### **3.4 Voting Rights**

Subject to the special rights or restrictions attached to any shares, on a show of hands every member who is present in person or by proxy, shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder. If a Shareholder or person appearing to be interested in shares has been given a notice under section 212 of the Act and is in default for fourteen days in supplying the required information, the directors may direct by notice to the Shareholder that he is not entitled to vote in relation to such shares.

### **3.5 Directors**

#### *Number of Directors*

Unless otherwise determined by ordinary resolution, the number of directors (including alternate directors) shall not be less than two.

#### *Remuneration of Directors*

The directors (other than alternate directors) shall be paid such fee for their services in their offices as directors as are determined by the directors. The aggregate of the fees (excluding amounts payable under any other provision of these Articles) shall not exceed £400 per annum or such higher amount

as decided by ordinary resolution of the Company. The directors may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendances with the discharge of their duties.

#### *Restrictions on voting by Directors*

Except as otherwise provided by the New Articles, a director may not vote at a meeting of the directors or of the committee of the directors on a resolution concerning a contract or arrangement or other proposal in which he has a material interest (otherwise than by virtue of his interest in shares or debentures or other securities of, or otherwise in or through, the Company) unless the resolution:

- (i) relates to the giving to him of a guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or a subsidiary undertaking;
- (ii) relates to the giving to a third party of a guarantee, security or indemnity in respect of an obligation of the Company or any of its subsidiaries for which he has assumed responsibility;
- (iii) relates to an offering of securities by the Company or a subsidiary undertaking in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or subunderwriting of which he is to participate;
- (iv) relates to another company in which he and the persons connected with him do not hold an interest in shares representing one per cent., or more either of its equity share capital or of its voting rights;
- (v) any proposal relating to pensions arrangements, share option schemes or share incentive schemes under which he may benefit.

#### *Borrowing Powers*

The directors may exercise all powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present or future) and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for a debt, liability or obligation of the Company or a third party. The directors shall restrict the borrowings of the Company and exercise all other rights and powers of control which the Company has in relation to its subsidiaries, so as to secure that the aggregate outstanding principal amount of all borrowings does not, without the sanction of an ordinary resolution, exceed three times the aggregate of:

- (i) the amount paid up or credited as paid up on the issued share capital of the Company; and
- (ii) the amount standing to the credit of the reserves (including share premium account, capital redemption reserve and any credit balance on profit and loss account (after deducting any debit balance) all as shown in either the 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 Company deducting amounts attributable to goodwill, excluding amounts set aside for taxation and making such other adjustments as the auditors after consultation with the Company consider appropriate.

#### *Executive Directors*

The directors may appoint a director to an executive office in the Company and may enter into an agreement or arrangement with the director for his employment by the Company or for the provision by him of services outside the scope of the ordinary duties of a director. The appointment agreement or arrangement may be made on such terms as the directors determine and they may remunerate the director for his services as they think fit (provided that the term of his employment does not exceed five years). The appointment of a director to an executive office terminates if he ceases to be a director but without prejudice to any claim he has for breach of his contract of employment.

### *Retirement of Directors by rotation*

At each general meeting, one third of the directors (other than directors who hold an executive office) or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third, shall retire from office by rotation provided that no director holding any executive office under the Company shall be required to retire by rotation or be taken into account in determining the number to retire. The directors who shall retire shall be those of the directors who have been longest in office since their appointment or last re-appointment, but, as between persons who became or were last reappointed directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

### *Directors' gratuities and pensions*

The directors may provide benefits whether by payment of gratuities or pensions or by insurance or otherwise for a director (or for any member of his family or any person who is dependent on him) who holds or has held but no longer holds an executive office or employment with the Company or with a body corporate which is or has been a subsidiary undertaking of the Company or a predecessor in business of the Company or of any subsidiary undertaking.

## **3.6 Dividends**

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but not exceeding the amount recommended by the directors from time to time. Dividends shall be declared and paid accordingly to the amounts paid up on the shares on which the dividend is paid. The directors may declare and pay interim dividends if it appears to them that they are justified by the profits of the company available for distribution. If a member or a person appearing to be interested in shares fails to comply with any notice given by the Company under section 212 of the Act, then provided the shares represent at least 0.25 per cent, of the issued shares of the relevant class, the Company may withhold payment of dividends (and shall not have any obligation to pay interest on it) and other sums that would otherwise be payable in respect of such shares. Any dividend or other sum which remains unclaimed for a period of twelve years from the date when it became payable shall, if the directors shall so determine, be forfeited and cease to remain owing by the Company.

## **3.7 Winding up**

Subject to the rights attached to any shares issued on special conditions, on a winding-up of the Company the assets available for distribution shall be divided among the holders of shares in proportion to the amount of capital paid up or credited as paid up on each share. If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution and any sanction required by the Insolvency Act 1986, divide among the members in specie the whole or part of the assets of the Company and may, for that purpose, value the assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the same sanction, vest the assets in trustees on such trusts for the benefit of members as the liquidator, with the same sanction, thinks fit, but a member shall not be compelled to accept assets in respect of which there is a liability.

## **4. Directors' and Other Interests**

- (a) The interests of the Directors, the Proposed Directors, and their immediate families (all of which are beneficial unless otherwise stated) and of connected persons, as at 22 June 2006 (being the latest practicable date prior to publication of this document) within the meaning of Section 346 of the Act in the issued share capital of the Company which have been notified to the Company pursuant to Sections 324 and 328 of the Act (or are required to be disclosed in the Register of Directors' interests pursuant to Section 325 of the Act) as at the date of this document and as expected to be immediately following Admission are as follows:

<i>Name</i>	<i>Current Holding</i>		<i>Following Admission and the Proposals</i>	
	<i>No. of Ordinary Shares</i>	<i>% of issued share capital</i>	<i>No. of Ordinary Shares</i>	<i>% of issued share capital</i>
<i>Directors</i>				
RM Stear <sup>(1)(4)</sup>	411,713	1.98%	1,411,713	2.83
R Court	—	—	—	—
J Hutchinson	1,317	0.01%	1,317	0.003
Baroness Chalker	3,846	0.02%	3,846	0.01
LJ Fassler <sup>(2)</sup>	357,963	1.73%	639,687	1.28
TG Roddick <sup>(3)(4)</sup>	577,898	2.79%	1,829,622	3.67
A Polansky	—	—	120,689	0.24

*Proposed Directors*

E Barrett	—	—	—	—
W Barrett	—	—	—	—
H Reiter	—	—	—	—
P Porteous <sup>(5)</sup>	—	—	100,000	0.2
S Kinney	—	—	—	—

*Notes:*

- (1) RM Stear's interest is held by the Flambard Settlement of which he is a beneficiary.
  - (2) LJ Fassler's interest is held in Sage Equities Inc. which is controlled by his son, David Fassler.
  - (3) TG Roddick owns his shares jointly with his wife Anita Roddick.
  - (4) R Stear and G Roddick also have a beneficial interest of 30.14 per cent., and 32.88 per cent. respectively in the issued share capital of Wild Investments Limited which is interested in 3,041,667 Ordinary Shares representing 14.68 per cent. of the issued share capital of the Company before Admission and 6.11 per cent. following Admission.
  - (5) P Porteous is purchasing 100,000 Ordinary Shares as part of the Placing.
- (b) At the close of business on 22 June 2006 (being the last practicable date prior to the publication of this document), options over Ordinary Shares have been granted to the Directors and remain outstanding as follows:

<i>Name of Director/ Proposed Director</i>	<i>Options over number of Ordinary Shares</i>	<i>Exercise price</i>	<i>Date of grant</i>	<i>Exercise period</i>
R M Stear	414,424	52 pence	2 March 2005	207,212 on 2 March 2006 207,212 on 2 March 2007
	996,037	Placing Price	22 June 2006	498,018 on 22 June 2007 498,019 on 22 June 2008
R Court	310,818	52 pence	2 March 2005	155,409 on 2 March 2006 155,409 on 2 March 2007
	747,028	Placing Price	22 June 2006	373,514 on 22 June 2007 373,514 on 22 June 2008
J Hutchinson	310,818	52 pence	2 March 2005	155,409 on 2 March 2006 155,409 on 2 March 2007
	747,028	Placing Price	22 June 2006	373,514 on 22 June 2007 373,514 on 22 June 2008

<i>Name of Director/ Proposed Director (continued)</i>	<i>Options over number of Ordinary Shares</i>	<i>Exercise price</i>	<i>Date of grant</i>	<i>Exercise period</i>
P Porteous	747,028	Placing Price	22 June 2006	373,514 on 22 June 2007 373,514 on 22 June 2008
H Reiter	373,514	Placing Price	22 June 2006	186,757 on 22 June 2007 186,757 on 22 June 2008

- (c) In addition to the interests of the Directors and the Proposed Directors set out above, as at 22 June 2006 (being the latest practicable date prior to publication of this document) the following persons were, or will at Admission, be directly or indirectly interested (within the meaning of Part VI of the Act) in 3 per cent. or more of the issued share capital of the Company:

<i>Name</i>	<i>As at 22 June 2006</i>		<i>On Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>% of Issued Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>% of Enlarged Issued Share Capital</i>
Wild Investments Limited	3,041,667	14.68%	3,041,667	6.11
Nutraco Nominees Limited	3,461,332	16.70%	3,461,332	6.95
Trustees of General Electric Pension Trust	2,949,317	14.23%	2,949,317	5.92
Grange Nominees Limited	1,623,625	7.84%	1,623,625	5.97
Bank of New York (Nominees) Limited	1,116,802	5.39%	1,116,802	2.24
Merrill Lynch International Limited	1,067,597	5.15%	3,913,255	7.86
Chase Nominees Limited	667,085	3.22%	667,085	1.34
Barrett Corporation	–	–	17,559,131	35.26

These shareholders do not have any different voting rights to other holders of Ordinary Shares.

- (d) On Admission, the Company will have 6,193,575 options over Ordinary Shares representing 12.4 per cent. of the Enlarged Issued Share Capital. <sup>A1 17.2</sup>
- (e) Save as disclosed above, so far as the Company is aware, there are no persons who are or will be immediately following Admission interested directly or indirectly in 3 per cent. or more of the Company's issued share capital, nor so far as the Company is aware, are there any persons who directly, or indirectly, jointly or severally, exercise or could exercise control at a subsequent date, over the Company. <sup>A1 18.3</sup>
- (f) The Company, the Directors and the Proposed Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.
- (g) The persons, including the Directors and the Proposed Directors referred to in paragraphs 4(a) and 4(b) of this Part VII, do not have voting rights in respect of the share capital of the Company (issued or to be issued) which differ from any other shareholder of the Company.
- (h) No Director, Proposed Director or members of their immediate families or any of their connected persons within the meaning of section 346 of the Act has a related financial product (within the meaning of the AIM Rules) relating to Ordinary Shares. <sup>Sch 2(i)</sup>

## 5. Directors' Service Agreements/Letters of Appointment

- (a) Directors' service contracts which have been entered into between the Company and the Executive are summarised below: <sup>A1 16.1</sup>

- (i) Rory Stear
 

Rory Stear has entered into a service agreement with the Company dated 23 February 2005 and which took effect from 1 March 2005. His employment continues until terminated by either party giving twelve months prior notice save in the case of a material breach of contract when the employee can be dismissed without prior notice. Rory Stear is paid total compensation inclusive of all benefits of £250,000 per annum under this agreement. He will also be entitled to receive a bonus subject to achievement of performance targets to be agreed with the Board.
  - (ii) Richard Court
 

Pursuant to a service agreement between Richard Court and Freeplay Market Development (Pty)Ltd dated 23 February 2005, Richard Court will be employed as Shared Services and Finance Director of the Group, terminable by either party on six months prior notice save in the case of a material breach of contract when the employee can be dismissed without prior notice. This agreement will commence on 1 March 2005 or, if admission does not take place by that date, 1 April 2005 and the agreement referred to in paragraph (b) (i) above will be terminated and superseded by this agreement. Richard Court will be paid an annual salary of ZAR1,000,000 and will be entitled to receive a bonus subject to achievement of performance targets to be agreed with the Board.
  - (iii) John Hutchinson
 

Pursuant to a service agreement between John Hutchinson and Freeplay Market Development (Pty) Ltd dated 14 November 2003, John Hutchinson is employed for an initial period expiring 30 June 2004 and thereafter his employment will continue until terminated by the Company or the employee giving six months prior notice save in the case of a material breach of contract when the employee can be dismissed without prior notice. John Hutchinson is paid an annual salary of ZAR750,000.
  - (iv) Pursuant to her letter of appointment dated 23 February 2005, Baroness Chalker, (a Non-executive Director of the Company) is entitled to receive an annual fee of £12,000.
  - (v) Pursuant to his letter of appointment dated 23 February 2005, Leonard Fassler, (a Non-executive Director of the Company) is entitled to receive an annual fee of £12,000. With effect from Admission the fee will reduce to £2,000 per annum.
  - (vi) Pursuant to his letter of appointment dated 23 February 2005, Gordon Roddick, (a Non-executive Director of the Company) is entitled to receive an annual fee of £12,000. With effect from Admission the fee will reduce to £2,000 per annum.
  - (viii) Pursuant to his letter of employment dated 22 June 2006, Andy Polansky, (a Non-executive Director of the Company) is entitled to receive an annual fee of £2,000 per annum.
  - (ix) Leonard Fassler, Gordon Roddick and Andy Polansky have accrued but unpaid non-executive directorship fees of £15,000, £15,000 and £6,000, respectively in aggregate upon Admission which they have elected to apply by way of subscription for new Ordinary Shares at the Placing Price.
- (b) Summaries of service agreements for the proposed Directors, which are conditional upon Admission are outlined below:
- (i) Pursuant to a service agreement between Peter Porteous and Freeplay dated 30 May 2006, which will commence upon Admission, Peter Porteous will be employed as Chief Executive Officer of the Group. His employment will continue until terminated by the Company or the employee giving six months prior notice, save in the case of a material breach of contract when the employee can be dismissed without prior notice. Peter Porteous will be paid an annual salary of £180,000 and will be entitled to receive a bonus subject to achievement of performance targets to be agreed with the Board.
  - (ii) Pursuant to his letter of appointment dated 22 June 2006, Harold Reiter will, conditional upon Admission, be appointed Non-executive Deputy Chairman of the Company and will be entitled to receive an annual fee of £2,000.

- (iii) Pursuant to his letter of appointment dated 22 June 2006, Edward Barrett will, conditional upon Admission, be appointed Non-executive Director of the Company and will be entitled to receive an annual fee of £2,000.
  - (iv) Pursuant to his letter of appointment dated 22 June 2006, William Barrett will, conditional upon Admission, be appointed Non-executive Director of the Company and will be entitled to receive an annual fee of £2,000.
  - (v) Pursuant to his letter of appointment dated 22 June 2006, Stuart Kinney will, conditional upon Admission, be appointed Non-executive Director of the Company and will be entitled to receive an annual fee of £2,000.
- (c) The aggregate remuneration and benefits in kind paid to the Directors in respect of the year ended 31 December 2005 was \$0.84 million. It is estimated that under arrangements currently in force, the aggregate remuneration and benefits in kind to be paid to the Directors for the year ending 31 December 2006 will be approximately US\$1.07 million.
- (d) Stuart Kinney provides legal services to Barrett Corporation and to Dixie through a professional corporation, Stuart Kinney Professional Corporation. The legal services provided by Stuart Kinney to Dixie through this professional corporation varies depending on business needs but is expected to be approximately US\$2,500 per month as a retainer. This arrangement will be reviewed again at the commencement of 2007. The fees earned by Stuart Kinney pursuant to this arrangement will be in addition to the fee he will be entitled to receive as a non executive director of the Company as referred to in paragraph 5(b)(v) of this Part VII.
- (e) Save as disclosed above, there are no service agreements existing or proposed between any Director or Proposed Director and the Company or any of its subsidiaries.

## 6. Additional Information on the Directors

- (a) In addition to directorships of companies within the Group, the Directors and the Proposed Directors hold or have held the following directorships or have been partners in the following partnerships within the five years prior to the date of this document:

<i>Directors</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
Roderick Morton Stear	Freeplay Energy plc Baylis Generators Limited Freeplay Market Development Limited Freeplay Market Development (Pty) Limited Englewood Holdings Limited Freestyle Investments Limited Summerspark Limited Freeplay Asia Limited	Freeplay Energy Holdings Limited Freeplay Limited Freeplay Energy Limited (BVI) Freeplay USA, Inc. (USA) Freeplay Energy Europe Limited (UK) Freeplay Energy Africa (Pty) (SA) Freeplay Energy Marketing Limited (Mauritius) Baygen Springs Pty Limited (SA) Baygen Power Trading Limited Kinsper Limited
Richard Austin Court	Freeplay Energy plc Freeplay Market Development Limited Freeplay Market Development (Pty Ltd) Baylis Generators Limited	Clarify Limited Periphonics V.P.S. Ltd Nortel Networks, Brazil

John Hutchinson	<p>Freeplay Energy plc  Englewood Holdings Limited  Freeplay Market Development  (Pty) Ltd  BayGen Springs (Pty) Ltd  Segway Safari (Pty) Ltd</p>	
Baroness Chalker	<p>Africa Matters Limited  African Medical And Research  Foundation (United Kingdom)  Ashanti Goldfields Limited  Ashanti Goldfields Company  Limited  British Executive Service Overseas  Ditchley Foundation (The)  Freeplay Energy plc  Freeplay Foundation  The South African Business  Initiative  Unilever plc  Unilever NV  Group 5 (Pty) Ltd  Lafarge et Cie</p>	<p>Capital Shopping Centres Plc  Development Consultants  International Landell Mills  Limited</p>
Leonard J Fassler	<p>Freeplay Energy plc  Vytec Corporation</p>	<p>Interliant Inc  Interliant UK Holdings  Limited  Navisite Europe Limited  Vestcom International, Inc</p>
Thomas Gordon Roddick	<p>Altamira Enterprises Limited  The Body Shop Film Company  Limited  The Body Shop International Plc  The Body Shop Foundation  The Body Shop Foundation  Trading Limited  Coco De Mer Limited  The Day Chocolate Company  Limited  Freeplay Energy plc  The Management and Enterprise  National Training Organisation  Respect Europe (UK) Limited  Respect London Limited  The Roddick Foundation</p>	<p>Aceglobe Limited  Agora Trading Limited  Anita Roddick Publications  Limited  The Big Issue Company  Limited  The Big Issue Foundation  Body And Soul International  Limited  The Body Shop Retail  Properties Limited  Colourings Limited  Freeplay Energy Europe Limited  The Millennium  Administration Company  Limited  Hotel du Vin Limited  The Public Management  Foundation  Tbsi (Holdings 2) Limited  Tbsi (Holdings 1) Limited  Toteview Limited</p>
Andy Polansky	<p>Freeplay Energy plc  Member of McCann  WorldGroup Board  Member of Weber  Shandwick Board  Member of Institute for Public  Relations (IPR) Board of Trustees</p>	

*Proposed Directors*

Edward Barrett

Atlantic Industries Ltd.  
Atlantic Trailer Sales Inc.  
Barrett Corporation  
Barrett Marketing Group Inc.  
Barrett Marketing Group LTD  
Barrett Xplore Inc.  
Central Supplies Limited  
Cora Corporation Inc  
Dixie Sales Company Inc.  
N.B. LTD  
N.B. Ltd  
New Brunswick Inc.  
S.H. Investments Ltd  
Sunrise Management Ltd  
Wajax Income Fund  
Widow Everett Lodge Inc.  
Wonder Auto Centres Ltd.

Armco Capital  
Imark Corporation

William Barrett

Arcadia University  
Board of Governors  
Atlantic Trailer Sales Inc.  
Barrett Corporation  
Barrett Marketing Group Inc.  
Barrett Marketing Froup LTD  
Barrett Xplore Inc.  
Dixie Sales Company Inc.  
N.B. LTD  
N.B. Ltd  
New Brunswick Inc.  
S.H. Investments Ltd  
Sunrise Management Ltd  
Widow Everett Lodge Inc.  
Windswept J.D.I. Inc.  
Wonder Auto Centres Ltd.

Harold Reiter

Mower MD Inc.

Maxxcom (US) Holdings Inc.  
(Delaware)  
Maxxcom Inc. (U.S.)  
Maxxcom (Nova Scotia) Corp.  
(Nova Scotia)  
MF+P Acquisition Co.  
(Delaware)  
SMI Acquisition Co.  
(Delaware)  
Accent Acquisition Co.  
(Delaware)  
FMA Acquisition Co.  
(Delaware)  
Mackenzie Marketing, Inc.  
(Delaware)  
Bratskeir & Company, Inc.  
(Delaware)  
Crispin Porter & Bogusky LLC  
Crispin Porter & Bogusky LA  
LLC  
Margeotes/Fertitta + Partners  
LLC (Delaware)  
Source Marketing LLC (New  
York)  
Accent Marketing Services,  
L.L.C. (Delaware)

Harold Reiter  
(continued)

Accent International Inc.  
(Delaware)  
Fletcher Martin Ewing LLC  
(Delaware)  
CPB Acquisition  
TC Acquisition Inc. (Delaware)  
TargetCom LLC (Delaware)  
Colle & McVoy, Inc.  
(Minnesota)  
Chinnioi Direct Inc.  
Interfocus Group Limited  
Interfocus Direct Limited  
Interfocus Network Limited  
Interfocus Technology Group  
Limited  
Interfocus Technology Limited  
Strategies International  
(656712 Ontario Limited)  
Accumark Promotions Group  
Inc. (Ontario)  
Ambrose Carr Linton Carroll  
Inc. (Ontario)  
Bryan Mills Group Ltd.  
Cormark Communications Inc.  
1385544 Ontario Limited  
Allard Johnson  
Communications Inc. (Ontario)  
Integrated Healthcare  
Communications Inc. (Ontario)  
Northstar Research Partners  
Inc. (Canada)  
Veritas Communications Inc.  
Maxxcom Interactive Inc.

Peter Porteous

Dixie Sales Company Inc.  
Meduxnekeag River Association  
Pine Ridge Diversified Ltd.

Canadian Marine  
Manufacturers Association  
Motorcycle Industry of Canada  
Woodstock Rotary Club

Stuart Kinney

Barrett Corporation  
Carleton Memorial Hospital  
Foundation Inc.  
Stuart Kinney Professional  
Corporation

Region 3 Hospital Corporation  
Wilson & Kinney Law Firm

- (b) Leonard J Fassler was a director of Interliant Inc. (“Interliant”), which filed voluntary petitions for reorganisation under Chapter 11 of the US Bankruptcy Code in August 2002. In May 2003, NaviSite acquired most of the assets of Interliant in a US Bankruptcy Code Section 363 proceeding. Interliant subsequently liquidated its remaining assets under a plan of liquidation confirmed in March 2004.
- (c) Save as disclosed in paragraph 6(b) above of this document none of the Directors or Proposed Directors has:
- (i) any unspent convictions in relation to indictable offences;
  - (ii) had any bankruptcy order made against him or entered into any individual voluntary arrangements;

- (iii) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, been subject to a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
  - (iv) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - (v) been the owner of any assets placed in receivership or a partner in any partnership any asset of which has been 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;
  - (vi) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
  - (vii) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.
- (d) Save as disclosed in this document), no Director or Proposed Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Group and remains in any respect outstanding or unperformed.
- (e) No loans made or guarantees granted or provided by the Company or any member of the Group to, or for the benefit of any Director, or the Proposed Directors, are outstanding.
- (f) Save as set out in paragraphs 4 (a) of this Part VII above, none of the Directors, or the Proposed Directors has any interest in the share capital of any company in the Group.
- (g) No Director, or the Proposed Directors has any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, any member of the Group or which are proposed to be so acquired, disposed or leased.
- (h) No Director, or any Proposed Director has any direct or indirect interest in any contract or arrangement subsisting at the date of this document which is significant to the business of the Group, except in relation to the Proposed Directors, the Acquisition Agreement and the distribution agreement with Dixie described in paragraph 7.1(b) of this Part VII.

## **7. Material contracts**

- 7.1 The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company or its subsidiaries within the period of two years immediately preceding the date of this document and are, or may be, material or contain provisions under which any member of the Group has any obligation or entitlement which is, or may be material;
- (a) Under the terms of the Placing Agreement dated 22 June 2006 and made between the Company, Charles Stanley, certain of the Directors, Proposed Directors, Barrett Marketing Group Ltd and Wild Investment Limited and Charles Stanley has agreed (conditionally, *inter alia*, on Admission taking place not later than 8.00 a.m. on 20 July 2006 or such later date as Charles Stanley and the Company may agree, being not later than 3 August 2006), as agent for the Company, to use its reasonable endeavors to procure subscribers for 11,067,358 Placing Shares at the Placing Price.

Under the Placing Agreement, and subject to it becoming unconditional, the Company has agreed to pay Charles Stanley a corporate finance fee of £150,000 (together with any applicable VAT) and a commission of 4 per cent. of the aggregate value of the Placing Shares at the Placing Price. The Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in

connection with Admission, expenses of the registrars, printing and advertising expenses, postage and all other legal, accounting and other professional fees and expenses.

The Placing Agreement contains warranties and indemnities given by the Company, the Directors and the Proposed Directors to Charles Stanley as to the accuracy of the information contained in this document and other matters relating to the Enlarged Group and its business. Charles Stanley is entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission.

Each of the Directors and the Proposed Directors and Wild Investments Limited has undertaken that, subject to certain exceptions, including transfers to family members or to trustees for their benefit and disposals by the way of acceptance of a general offer for the entire issued share capital of the Company, he will not sell or otherwise dispose of, or agree to sell or dispose of, any of his interests in the Ordinary Shares held immediately following Admission at any time prior to the first anniversary of Admission and at any time thereafter he will only sell or otherwise dispose of, or agree to sell or dispose of, any such interest through Charles Stanley for as long as it remains nominated adviser to the Company.

- (b) Pursuant to a stock purchase agreement dated 17 May 2006 between, *inter alia*, Dixie, Barrett Marketing Group Ltd and the Company, the Company has agreed conditionally to acquire the entire issued shares of Barrett Marketing Group, Inc. which through a wholly owned subsidiary, Barrett Dixie Sales, Inc, owns the entire issued share capital of Dixie. Completion of the purchase is conditional upon:
- there being no material adverse change in the business or financial condition of Freeplay or Dixie;
  - a minimum sum of US\$5 million being raised on the placing and the issue price per share being not less than 25p;
  - there being no breach by either party of the Acquisition Agreement which would materially reduce the value of the shares in BMGI or the Ordinary Shares;
  - Admission; and
  - the approval of the resolutions set out in the EGM.

The purchase price will be satisfied by the allotment and issue of 17,559,131 Ordinary Shares and a promissory note for US\$1.084 million secured over the assets of Dixie. The promissory note will be payable, *inter alia*, on the earlier of the date on which the Company raises additional equity capital and the fifth anniversary of Admission. In addition, under the terms of the promissory note, Freeplay has agreed to pay amounts due to James E Starmer, Jr and Richard L Starmer under certain promissory notes as and when such amounts become due in accordance with those notes and such payments will be treated as a reduction of the amount due under the promissory note issued by Freeplay as part of the consideration for the Acquisition. Barrett and Freeplay have both provided warranties and indemnities in relation to their respective businesses. Under the Acquisition Agreement, Barrett has agreed to procure that Dixie's existing credit facilities totalling US\$11 million will remain in place and be available to Dixie at least until 31 December 2007.

The agreement also provides for the appointment of Peter Porteous as Chief Executive Officer of the Enlarged Group following completion of the agreement, Harold Reiter as Non-executive deputy chairman of the Enlarged Group and Edward Barrett, William Barrett and Stuart Kinney as Non-executive Directors of the Enlarged Group following completion of the Acquisition Agreement.

Barrett Corporation has also agreed for a period of two years following Admission not to compete with Freeplay in relation to the Freeplay business as carried on at Admission and, in relation to the Dixie business, the brands represented by Dixie at Admission.

Pursuant to the Acquisition Agreement, Dixie has entered into a Support Agreement whereby Dixie will pay Barrett a monthly fee of US\$16,667 in consideration of Barrett providing office space to Dixie in Barrett's call centre and warehouse in Woodstock, New

Brunswick and in Barrett's offices in Brampton, Ontario, the provision of human resource administration with respect to Dixie employees working in Canada, preparation of Dixie's monthly Canadian operation's financial reports, management of Dixie's Canadian accounts receivables and the guarantee of Dixie's credit facilities referred to above.

- (c) On 24 February 2004, the Company entered into an agreement with Charles Stanley pursuant to which the Company has appointed Charles Stanley to act as nominated adviser and broker to the Company for the purpose of the AIM Rules. The Company agreed to pay Charles Stanley a fee of £35,000 plus VAT per annum for these services. The agreement contains certain warranties, undertakings and indemnities given by the Company and the Directors in respect of, *inter alia*, compliance with applicable laws and regulations. The agreement is subject to thirty days written notice by either party.
- (d) On 24 February 2005, the Company entered into option agreements with Peter Mountford and Adrian Bradshaw whereby each were granted an option over 518,031 Ordinary Shares exercisable at any time up to 23 February 2012. The options are exercisable at a price of 52p per share.
- (e) On 9 August 2004 the Company entered into a consultancy agreement with Bradmount Capital Partners LLP ("Bradmount"). Bradmount was paid a fee of £100,000 plus VAT upon Admission in consideration of services provided in connection with the transactions contemplated by this document. In addition, Bradmount will be paid a consultancy fee of £25,000 plus VAT per annum for an initial period of three years commencing on 9 August 2004. The services to be provided under the consultancy agreement include financial and advisory advice in connection with the Group.
- (f) On 22 June 2004 the Company issued £350,000 of convertible loan stock to Nutraco Nominees Limited. The stock automatically converted into 897,436 Ordinary Shares upon admission on 2 March 2005 at an amount per Ordinary Share equivalent to 75 per cent. of the placing price of 52 pence per Ordinary Share.
- (g) Pursuant to a deed dated 16 December 2004 between the Company (1), Baylis Generators Limited ("BGL") (2) and Freeplay Foundation (3), the Company and BGL have granted a royalty free-licence to Freeplay Foundation to use the Company's proprietary technology and trade marks for the manufacture and distribution of Freeplay products for humanitarian purposes. Further, pursuant to the deed, the Company undertakes to make a donation to Freeplay Foundation of US\$150,000 a year for five years and, at its discretion, provide Freeplay Foundation with office space.
- (h) On 14 January 2005 the Company issued £1,000,000 of convertible loan stock to Nutraco Nominees Limited and £500,000 to Framely Consultancy Limited. The stock automatically converted into 3,846,154 Ordinary Shares upon admission on 2 March 2005 at an amount per Ordinary Share equivalent to 75 per cent. of the placing price of 52 pence per Ordinary Share.
- (i) Pursuant to a share transfer agreement dated 4 February 2005, Freeplay Energy Holdings Limited transferred the entire issued share capital of (i) Freeplay Market Development Limited and (ii) Baylis Generators Limited to Summerspark Limited for a total consideration of £2.
- (j) Pursuant to a share transfer agreement dated 4 February 2005, the Company transferred the entire issued share capital of Freeplay Energy Holdings Limited to Kinsper Limited for a total consideration of £1.
- (k) Pursuant to a Deed of Waiver dated 11 February 2005, Rory Stear has waived his entitlement to receive unpaid salary and unpaid bonuses of US\$545,000 which had accrued in the period from October 2001 to 2 March 2005.
- (l) Pursuant to the terms of a deed of indemnity between Rory Stear, the Company and Charles Stanley dated 24 February 2005, Rory Stear has provided an indemnity to the Company in

respect of any further taxation that may be payable in respect of Rory Stear's employment contract with Freeplay Asia Limited dated 11 October 2001.

- (m) Pursuant to an agreement dated 25 May 2005, the Company entered into an exclusive distribution agreement for its products with Dixie. Dixie was granted exclusivity in the US, Canada, Hawaii and the Caribbean. Under the agreement Freeplay agrees to reimburse Dixie for certain costs to be incurred in connection with the agreement. Dixie is entitled to 10% of the net income from sales and Freeplay, 90% of the net income in respect of sales not exceeding US\$2.7m for the period ended 30 December 2005. Dixie is entitled to 25% of the net income and Freeplay 75% of the net income from sales exceeding US\$2.7m for the period ended 30 December 2005. The agreement is for an initial period ending 31 December 2008 and will automatically be extended for an additional period of three years provided certain performance targets are achieved by Dixie during this period.
  - (n) Pursuant to an agreement dated 19 October 2005 between Freeplay and Andy Law, Andy Law agreed to provide strategy and marketing consultancy services to the Group. Mr Law was paid a fee of £15,000 and was granted options over 100,000 Ordinary Shares exercisable from 1 July 2006, ending on 1 July 2011 at an exercise price of 52p per share. The period of the agreement is from 19 October 2005 to 30 June 2006.
  - (o) Pursuant to a distribution agreement dated 30 March 2006 between Freeplay and Connoisseur Electronics (Pty) Ltd ("Connoisseur"), Connoisseur were granted exclusive distribution rights in relation to specific customers in South Africa, Namibia, Botswana, Swaziland and Lesotho in respect of sales of the Group's products. The agreement is for a period of two years from 30 March 2006 and may be extended for a further period of two years subject to certain conditions.
  - (p) Pursuant to a consultancy agreement between Freeplay and Technical Marketing Consultants, Inc. ("TMC") dated 5 May 2006, TMC agreed to provide the services of Gerald Le Bow to Freeplay in connection with its product development programme, specifically in relation to a DAB radio for the US market and in connection with Freeplay's relationship with certain customers and business development activities. TMC is paid a consultancy fee of US \$5,000 per month and has been granted an option over 100,000 Ordinary Shares exercisable at a price of 52p each from 31 March 2006 to 31 March 2011. The agreement can be terminated by either party by six months notice at any time
  - (q) Pursuant to an exclusive purchase agreement dated 12 May 2006 as varied by an agreement dated 12 June 2006 between Freeplay and WP Phones International Hong Kong Ltd ("WP Phones"), Freeplay granted exclusive distribution rights to WP Phones for the sale of FreeCharge hand powered mobile phone chargers in sub-Saharan Africa and the Caribbean region. WP Phones has agreed to purchase a minimum of 1,100,000 units per annum of the Free Charge charger for an initial period of five years. The agreement will automatically extend for a further five year period provided WP Phones fulfils the minimum purchasing obligation. In the event that sales of more than 1,100,000 units are achieved in any year during the agreement, WP Phones will also be granted exclusive rights for Nigeria and Tanzania.
  - (r) Pursuant to a subscription agreement dated 21 June 2006, Sage Equities, Inc., a company in which Leonard Fassler, a director of the Company, is interested, agreed to subscribe for 230,000 New Ordinary Shares at 29p per share.
  - (s) Pursuant to a subscription agreement dated 22 June 2006, Andy Polansky, a director of the Company, agreed to subscribe for 100,000 New Ordinary Shares at 29p per share.
- 7.2 The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by Dixie within the period of two years immediately preceding the date of this document and are, or may be, material or contain provisions under which Dixie has any obligation or entitlement which is, or may be material.
- (a) Dixie entered into non-compete agreements dated 14 August 2001 with two of the founders of Dixie, James E Starmer Junior and Richard L Starmer whereby each agreed not to

compete with the Dixie business for a period of three years after each ceases to be employed by Dixie. Under the agreement Dixie is obliged to make non-compete payments of US\$1,417 to each of them for 11 years from the date of the agreement. The non-compete applies to certain areas of the US.

- (b) Dixie entered into an agreement with Black & Decker trading as DeWalt Porter Cable Delta dated 21 February 2006 which created a distributor/supplier relationship for certain stores and established a service centre referral network. The agreement is for a period of three years commencing 21 February 2006 and is automatically renewed for terms of one year provided Dixie is not in default. Under the agreement Dixie is paid a monthly maintenance fee based upon the number of stores covered by the agreement.
- (c) Dixie entered into a distribution and service agreement dated 22 July 2005 with Champion Power Equipment which establishes a distribution and sales relationship between the parties. Under the agreement Dixie provides call centre, technical support, dealer servicing, warranty processing and inventory management services. The agreement commenced in September 2005 and expires on 31 August 2008.
- (d) Dixie has entered into manufacturer/distributor agreements with MTD Consumer Group, Inc. dated 12 October 2005 and 1 November 2005 whereby Dixie maintains an inventory of products for MTD in certain parts of the US. Dixie also provides core centre technical support and direct marketing services under the agreement. The agreement can be terminated by either party upon 90 days written notice.
- (e) Pursuant to a shareholders' agreement dated 18 November 2004 between Dixie and Mower MD, Dixie acquired 50 per cent. of the issued share capital of Mower MD. The agreement contains a right of first refusal in respect of transfers of shares. There is also a call option in favour of Mower MD, the other shareholder of Mower MD, exercisable upon the occurrence of certain events tied to the MTD distribution agreements referred to above. The call option price is either a price agreed upon by the parties or the pro rata amount of the appraised value of the corporation. There is also a non-compete obligation for two years if the distribution agreement is terminated or if Dixie ceases to be a shareholder.
- (f) Pursuant to an agreement dated 26 July 2001, BDS, a wholly owned subsidiary of Barrett Corporation, acquired 75 per cent. of the issued shares in Dixie from James E. Starmer, Junior, Richard L. Starmer and David Starmer for a cash consideration of US\$3,033,000. A proportion of the consideration was payable pursuant to a twelve year promissory note bearing interest at prime US bank rate plus 1per cent. with payments of principal and interest made monthly.
- (g) Pursuant to an agreement dated 9 August 2005, BMGI., a wholly owned subsidiary of Barrett Corporation acquired BDS's share capital and the remaining shares in Dixie from James E. Starmer, for a cash consideration of US\$557,806.06. Of this sum US\$20,000 was paid in cash at closing and US\$537,806.06 of which was paid via a promissory note, bearing interest at 4.2 per cent. per annum and requiring quarterly payments of US\$19,875 each. Payments of the promissory notes referred to above will be made by Dixie on behalf of Barrett after Admission when due under the respective note, and amounts so paid will reduce the amount of the principal sum due under the promissory note issued to BMG by Freeplay pursuant to the Acquisition Agreement described on paragraph (b) above.
- (h) Pursuant to the Promissory Note referred to in paragraph 7.1(b) above, Dixie has agreed to grant a Stock Pledge Agreement in favour of BMG over the entire issued share capital of Dixie to support the repayment of the said Promissory Note and to secure certain other obligations of Freeplay and Dixie in relation to the Acquisition Agreement.
- (i) Dixie has agreed to enter into a Security Agreement dated in favour of BMG whereby Dixie granted a security interest over its assets in favour of BMG as security for the said Promissory Note and to secure certain other obligations of Freeplay and Dixie in relation to the Acquisition Agreement.

## 8. Principal Premises

### (a) Leasehold premises occupied by the Group

<i>Location</i>	<i>Tenure</i>	<i>Rent</i>	<i>Lease Date</i>	<i>Expiry</i>	<i>Approx. Area (m<sup>2</sup>)</i>	<i>Principal Use</i>
3rd Floor Regent Gate 56-58 Conduit Street London W1 UK	Lease	£66,150 until 24 December 2007 and from 25 December 2007 until 20 December 2012 the higher of £48,700 per annum and the open market rental value as at 25 December 2007	26 November 2004	30 December 2012 with an option to break at 25 December 2007 on six months notice	99	Administrative
1st Floor and Ground Floor Store M5 Business Park Black Riverpark Way Maitland, South Africa	Lease	ZAR 63,708 rising to ZAR 83,464 at the end of the term	1 November 2005	31 October 2010 with an option to renew for a further five year period	1091	Store, workshop, showroom and administration
1st Floor International House Marna Ngria Street Nairobi	Licence	Ksh 88,000 per month	1 April 2006	1 April 2007 subject to termination by one months notice	25	Administrative

### (b) Leasehold premises occupied by BMGI

<i>Location</i>	<i>Tenure</i>	<i>Rent (US\$)</i>	<i>Lease Date</i>	<i>Expiry</i>	<i>Principal Use</i>
5902 Boxelder Cove, Greensboro, North Carolina, US	Lease	\$1,440 per month	9 August 2005		Residential purposes
7520 Morris Court, Allentown PA, US	Lease	\$6,851.43 per month until 31 March 2007, rising to \$7,008.22 per month to 31 March 2008	6 January 2003	31 March 2008	
11531 Gulf Stream Drive, Arlington, Tennessee, US	Lease	1 January 2006 to 31 March 2008 \$147,000 per annum 1 April 2008 to 31 March 2009 \$134,000 per annum 1 April 2009 to 31 March 2010 \$136,500 per annum 1 April 2010 to 31 March 2011 \$138,000 per annum	15 September 1995	31 March 2011 with a right to terminate by four months notice to expire on 31 March 2008, 31 March 2009 or 31 March 2010	

5920 Summit Avenue, Greensboro, North Carolina, US	Lease	1 January 2006 to 31 December 2006 \$405,283.09 per annum 1 January 2007 to 31 December 2007 \$413,388.75 per annum	28 September 1994	31 December 2007 with an option to extend for a further five year term upon 180 days notice
9700 Satellite Boulevard, Orlando, Florida, US	Lease	2006 \$200,269.78 per annum 2007 \$205,276.52 per annum 2008 \$210,408.43 per annum	1 March 1999	1 March 2008

## 9. Share Schemes and Options

- (a) The Company has adopted an unapproved employee share option scheme. Under the Scheme the Directors have the discretion to grant options to subscribe for Ordinary Shares up to a maximum of 10 per cent. of the Company's issued share capital. Options can be granted to any employee of the Group. Options cannot be exercised for a period of one year from the date of grant. In the event of any employee to whom options have been granted ceasing to be an employee of the Group, he or she will have a set period in which to exercise those options (depending on the reasons for leaving), failing which the options will lapse.
- (b) As at 22 June 2006 (being the last practicable date prior to publication of this document) the Company has granted 1,036,060 options under the Scheme to Directors as disclosed in paragraph 4(b) of Part VII of this document. On Admission, a total of 3,610,635 options will be granted to Directors, and Proposed Directors.
- (c) In addition to the options granted under the Scheme, the Company has granted options to Peter Mountford and Adrian Bradshaw as described in paragraph 7.1(d) of this Part VII and to Andy Law and TMC as described in paragraphs 7.1(n) and 7.1(p) of this Part VII.

## 10. Litigation

- 10.1 No member of the Group is, nor has at any time in the 12 months immediately preceding the date of this document been, engaged in any governmental, legal or arbitration proceedings, and the Company is not aware of any governmental, legal or arbitration proceedings pending or threatened by or against the Company or any member of the Group, nor of any such proceedings having been pending or threatened at any time in the 12 months immediately preceding the date of this document in each case which may have, or have had in the recent past, a significant effect on the Company's or the Group's financial position or profitability.
- 10.2 No member of the BMGI Group is, nor has at any time in the 12 months immediately preceding the date of this document been, engaged in any governmental, legal or arbitration proceedings, and the Company is not aware of any governmental, legal or arbitration proceedings pending or threatened by or against BMGI or any member of the BMGI Group, nor of any such proceedings having been pending or threatened at any time in the 12 months immediately preceding the date of this document in each case which may have, or have had in the recent past, a significant effect on the BMGI Group's financial position or profitability.

## 11. Working capital

The Directors are of the opinion, having made due and careful enquiry and having taken into account the net proceeds of the Placing, that following Admission the Enlarged Group will have sufficient working capital for its present requirements, that is for at least the 12 month period following Admission.

## 12. Significant Changes

12.1 Save as disclosed in this document, there has been no significant change in the financial or trading position or prospects of the Group since 31 December 2005.

12.2 Save as disclosed in this document, there has been no significant change in the financial or trading position or prospects of the BMGI Group since 31 December 2005.

## 13. Related Party Transactions

The Group has entered into the following related party transactions:

- (a) The Exclusive Distribution Agreement between Dixie and Freeplay described in paragraph 7.1(m) of this Part VII;
- (b) The Supply Agreement between Dixie and BMG described in paragraph 7.1(b) of this Part VII;
- (c) The Acquisition Agreement, Promissory Note, Security Agreement and Stock Pledge Agreement referred to in paragraphs 7.1(b), 7.2(h) and 7.2(i) of this Part VII; and
- (d) The agreement pursuant to which Stuart Kinney provides legal services to Dixie as referred to in paragraph 5(d) of this Part VII.

The Proposed Directors are interested in the transactions referred to above by virtue of their interests as shareholders in Barrett Corporation. BMG is a wholly owned subsidiary of Barrett Corporation and until completion of the Acquisition Agreement Dixie is a wholly owned subsidiary of Barrett Corporation.

## 14. Taxation

The following paragraphs are intended as a general guide only for shareholders who are resident and ordinarily resident in the United Kingdom for tax purposes, holding Ordinary Shares as investments and not as securities to be realised in the course of a trade, and are based on current legislation and UK HM Revenue & Customs practice. Any prospective purchaser of Ordinary Shares who is in any doubt about his tax position or who is subject to taxation in a jurisdiction other than the UK, should consult his own professional adviser immediately.

### *(a) Taxation of Chargeable Gains*

For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares pursuant to the Placing will be regarded as an acquisition of a new holding in the share capital of the Company.

To the extent that a shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the Ordinary Shares will constitute the base cost of a shareholder's holding.

If a Shareholder disposes of all or some of his or her Ordinary Shares, a liability to tax on chargeable gains may, depending on their circumstances, arise (subject to, in the case of individuals and trustees, a deduction for taper relief, the amount of which depends on various factors, in particular the length of the period of ownership of the shares). If the Company has substantial non-trading activities, only non-business asset taper relief will apply.

Shareholders should note that shares quoted on AIM qualify for "business assets" taper relief provided the shares are shares in a trading company or the holding company of a trading group and the group does not have substantial non-trading activities. The effect of this relief is to reduce the proportion of any capital gain chargeable to tax for each complete year that the shares are held. Maximum relief is obtained once shares have been held for two years.

Under current United Kingdom law the effect of business asset taper relief is as follows:

<i>Number of years shares held</i>	<i>Percentage of Gain Chargeable</i>	<i>Effective rate when higher rate tax payer (40%)</i>
0-1	100	40
1-2	50	20
More than 2	25	10

Corporate investors are not entitled to taper relief but are due indexation allowance which may also reduce the chargeable gain.

UK pension schemes, including SIPPs and SSASs, but not FURBS, will normally be exempt from capital gains tax.

*(b) Stamp Duty and Stamp Duty Reserve Tax*

No stamp duty or stamp duty reserve tax (“SDRT”) will generally be payable on the issue of the Ordinary Shares.

*(i) Shares held outside the CREST system*

The conveyance or transfer on sale of the Ordinary Shares will usually be subject to stamp duty on the instrument of transfer, generally at the rate of 0.5 per cent. of the amount or value of the consideration. Stamp duty is charged in multiples of £5. An obligation to account for stamp duty reserve tax (“SDRT”) at the rate of 0.5 per cent. of the amount or value of the consideration will also arise if an unconditional agreement to transfer the Ordinary Shares is not completed by a duly stamped instrument of transfer before the “accountable date” for SDRT purposes. The accountable date is the seventh day of the month following the month in which the agreement for the transfer is made. Payment of the stamp duty will cancel the liability to account for SDRT. It is the purchaser who is in general liable to account for stamp duty or SDRT.

*(ii) Shares held within the CREST system*

The transfer of the Ordinary Shares in uncertificated form in the CREST system will generally attract a liability to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration. The SDRT is payable on the fourteenth day following the date of the unconditional agreement for the transfer of the Ordinary Shares.

The above statements are intended as a general guide to the current position. Certain categories of person are not liable to stamp duty or SDRT, and others may be liable at a higher rate or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

*(c) Dividends and other Distributions*

Dividends paid by the Company will carry an associated tax credit of one-ninth of the cash dividend or ten per cent. of the aggregate of the cash dividend and associated tax credit. Individual shareholders resident in the UK receiving such dividends will be liable to income tax on the aggregate of the dividend and associated tax credit at the Schedule F ordinary rate (10 per cent.) or the Schedule F upper rate (32.5 per cent.).

The effect will be that taxpayers who are otherwise liable to pay tax at only the lower rate or basic rate of income tax will have no further liability to income tax in respect of such a dividend. Higher rate taxpayers will have an additional tax liability (after taking into account the tax credit) of 22.5 per cent. of the aggregate of the cash dividend and associated tax credit. This will be equivalent to 25 per cent. of the cash dividend received. Individual shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such dividends.

A UK resident corporate shareholder will not generally be liable to corporation tax or income tax in respect of dividends received from the Company.

Trustees who are liable to account for income tax at the rate applicable to trusts on the trust's income and are required to account for tax at the Schedule F trust rate of 32.5 per cent. against which they can get the tax credit.

Persons who are not resident in the UK for tax purposes should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident. These comments are intended only as a general guide to the current tax position in the UK as at the date of this document. The comments assume that Ordinary Shares are held as an investment and not as an asset of financial trade.

If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser immediately.

## **15. Third Party Information**

The Company confirms that the information in this document, as outlined in the table below, which has been sourced from third parties has been accurately reproduced and that as far as it is aware and able to ascertain from information published by each of those third parties, no facts have been omitted which would render the information reproduced inaccurate or misleading.

The Source of the third party information has been indicated on the relevant pages.

## **16. General**

- (a) The total costs and expenses relating to the Placing and Admission payable by the Company are estimated to be £762,800 including VAT.
- (b) The total proceeds of the Placing are expected to amount to £3.3 million of which the net proceeds receivable by the Company are expected to be £2.54 million. The total costs and the expenses in connection with the Placing and Admission are estimated to be £762,800 including VAT and are all payable by the Company.
- (c) Baker Tilly has given and not withdrawn their written consent to the inclusion of references to their name herein in the form and context in which they appear and to the inclusion of their reports in this document and have authorised the contents of their accountants' reports for the purposes of Schedule Two of the AIM Rules. Baker Tilly are registered by the Institute of Chartered Accountants of Scotland to carry out audits.
- (d) Charles Stanley has given and not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which it appears.
- (e) The accounting reference date of the Company is 31 December.
- (f) The minimum amount, which in the opinion of the Directors, must be raised and received by the Company pursuant to the Placing is £3.3 million. The proceeds of the Placing of the New Ordinary Shares are intended to be applied as follows
  - (i) working capital £2.54 million
  - (ii) costs of the Placing and Admission £0.76 million
  - (iii) repayment of borrowings £nil
  - (iv) other £nil
- (g) It is expected that definitive share certificates will be despatched by hand or first class post by 28 July 2006. In respect of uncertificated shares, it is expected that shareholders' CREST stock accounts will be credited on 20 July 2006.
- (h) Save as disclosed in Part I, the Directors are unaware of any exceptional factors which have influenced the Company's activities.

- (i) Save as disclosed below, there are no patents, industrial, commercial or financial contracts or new manufacturing processes which are material to the Group's business or profitability:

<i>Country</i>	<i>Title</i>	<i>Effective Date</i>	<i>Filing Application Number</i>	<i>Monopoly Number</i>	<i>Granted Date Status</i>
United Kingdom	Generator	07/08/1995	9516144.4	2304208	23/06/1999
EPC	Generator	25/07/1996	96925832.6	–	10/10/2001
France	Generator	25/07/1996	96925832.6	0843911	10/10/2001
Germany	Generator	25/07/1996	96925832.6	69615848.5	10/10/2001
Ireland	Generator	25/07/1996	96925832.6	0843911	10/10/2001
Italy	Generator	25/07/1996	96925832.6	0843911	10/10/2001
Netherlands	Generator	25/07/1996	96925832.6	0843911	10/10/2001
Spain	Generator	25/07/1996	96925832.6	0843911	10/10/2001
United States	Generator	01/08/1996	08/704404	5917310	29/06/1999
South Africa	Generator	30/07/1996	96/6472	96/6472	30/04/1997
Canada	Generator	25/07/1996	2228936	2228936	30/10/2001
United States	Generator	12/11/1998	09/190537	6133642	17/10/2000
South Africa	Power Source	08/12/1998	9811226	98/11226	31/08/1999
EPC	Power Source	10/11/1999	99954202.0	–	15/06/2005
United States	Power Source	10/11/1999	09/831529	6472846	29/10/2002
United States	Generator Systems	24/12/2001	10/451120	–	–
PCT	Generator Systems	24/12/2001	GB01/05778	–	–
United Kingdom	Power Generator	16/04/2003	0308824.2	–	–
PCT	Power Generator		–	–	–
United States	Radio	02/05/1997	29/082570	408413	20/04/1999
United States	Radio	13/05/1999	29/104869	428873	01/08/2000
United Kingdom	Electric Torch	02/09/1999	2086358	2086358	24/11/1999
United States	Torch	20/12/1999	29/115770	436197	09/01/2001
United Kingdom	Radio	03/10/2005	3022660	30222660	03/10/2005

- (j) Save as disclosed in Part I, there are no investments in progress which are or may be significant to the Enlarged Group.
- (k) There are no environmental issues that may affect the Enlarged Group's utilisation of its tangible fixed assets.
- (l) The financial information contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Act. Copies of the audited accounts of the Company for the three years ended 31 December 2005 have been delivered to the Registrar of Companies in England and Wales. The auditors' reports on those accounts were unqualified and did not contain any statement under section 237 of the Act.
- (m) The auditors of the Company for the year ended 31 December 2005 were PricewaterhouseCoopers LLP of First Point, Buckingham Gate, Gatwick RH6 0PP. The auditors of Dixie for the years ended 31 December 2003, 2004 and 2005 were Breslow Starling Frost Warner Boger Hiatt, PLLC, Certified Public Accountants. PricewaterhouseCoopers LLP are registered by the Institute of Chartered Accountants in England and Wales to carry out audits. Breslow Starling Frost Warner Boger Hiatt, LLC is a member of American Institute of Certified Public Accountants and North Carolina Association of Certified Public Accountants.
- (n) The principal activities of the Group are described in Part I of this document. Save as disclosed in Part I of this document, there are no known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Enlarged Group's prospects for at least the current financial year.
- (o) Save as set out in this document, there are no significant projects in progress by the Company nor has the Board already made a firm commitment to future investments.

- (p) Except as disclosed in this document, no person (other than professional advisers named in this document and trade suppliers) has received, directly or indirectly, from the Company within the 12 months preceding the application for Admission or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:
- i) fees totalling £10,000 or more; or
  - ii) securities in the Company with a value of £10,000 or more, calculated by reference to the Placing Price; or
  - iii) any other benefit with a value of £10,000 or more at the date of Admission.

Each of the Directors and Proposed Directors is, or may be deemed to be, a promoter of the Company.

**17. Availability of this document**

Copies of this document are available free of charge from the Company's registered office and at the offices of Charles Stanley & Co. Limited, 25 Luke Street, London EC2A 4AR during normal business hours on any weekday (Saturdays and public holidays excepted) and shall remain available for at least one month after Admission.

23 June 2006

## NOTICE OF EXTRAORDINARY GENERAL MEETING

# Freeplay Energy plc

(Registered No. 4220065)

NOTICE IS HEREBY GIVEN THAT an EXTRAORDINARY GENERAL MEETING of the above-named company (the "Company") will be held at the offices of Edwin Coe, 2 Stone Buildings, Lincoln's Inn, London, WC2A 3TH on 17 July 2006 at 11.00 a.m. for the purposes of considering and, if thought fit, approving the following resolutions of which resolutions 1 to 3 will be proposed as ordinary resolutions and resolution 4 will be proposed as a special resolution. The Directors are of the opinion that the net assets of the company are less than one half of its called up share capital and, in accordance with Section 142 of the Companies Act 1985, the meeting will consider whether any, and if so what, steps should be taken to deal with the situation.

### Ordinary Resolutions

1. That the authorised share capital of the Company be and is hereby increased from £3,305,324.85 to £6,849,792.50 by the creation of an additional 70,889,353 ordinary shares of 5p each, such shares to rank *pari passu* in all respects with the existing ordinary shares of the Company ("Ordinary Shares").
2. That, subject to the admission of the entire issued share capital of the Company to trading on the AIM Market of the London Stock Exchange ("Admission") the acquisition ("Acquisition") by the Company of the entire issued share capital of BMGI on the terms and subject to the conditions contained in the acquisition agreement dated 17 May 2006 between the Company (1) Barrett Marketing Group, Ltd (2), Barrett Marketing Group, Inc (3) Dixie (4) Barrett Corporation (5) and Barrett Dixie Sales, Inc. (6) be and the same is hereby approved with such minor amendments as the Directors may approve, and the Directors or any duly authorised committee of the Directors be and are hereby authorised to take all steps necessary or desirable to complete the Acquisition.
3. That, subject to Admission, in substitution for any existing such authority, the directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to allot relevant securities of the Company (within the meaning of that section 80) up to an aggregate nominal amount of £2,381,813.04, such authority (unless previously revoked or varied) to expire on the day falling 15 months following the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

### Special Resolutions

4. That, subject to Admission, the directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the said Act) pursuant to the authority conferred by resolution 3 above as if section 89(1) of the Act did not apply to any such allotments provided that this power shall be limited to:
  - (a) the allotment of 17,559,131 new Ordinary Shares pursuant to the Acquisition;
  - (b) the allotment of 11,397,358 new Ordinary Shares in connection with the Placing (which shall have the meaning given in the Admission Document);
  - (c) the allotment of equity securities, such securities not to exceed 10 per cent. of the Company's issued share capital, pursuant to the terms of any share option scheme for directors, employees and consultants of the Company and/or its subsidiaries currently in existence or operation or subsequently adopted by the Company;

- (d) the allotment (other than under paragraphs (a) to (c) above) of additional equity securities up to an aggregate nominal value of £249,009.34.

and so that such power (unless previously revoked or varied) shall expire 15 months from the date of passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company provided that the directors may, before the power expires, make an offer or enter into an agreement which would or might require equity securities to be allotted after such power expires.

*By Order of the Board*

*Registered Office:*  
2 Stone Buildings  
Lincoln's Inn  
London  
WC2A 3TH

Dated 23 June 2006

*Notes:*

1. A member entitled to attend and vote at the Extraordinary General Meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
2. A pre-paid form of proxy is enclosed. To be valid, the form of proxy (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such authority) must be deposited at the offices of the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Kent, BR3 4TU, not later than 11.00 a.m. on 15 July 2006. Completion of the form of proxy will not preclude a member from attending and voting in person.
3. The Company specifies that only those shareholders registered in the register of members of the Company as at 11.00 a.m. on 15 July 2006 shall be entitled to attend or vote at the Extraordinary General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the Extraordinary General Meeting.
4. Shareholders (or their proxies) attending the meeting are deemed, for the purpose of the Financial Services and Markets Act 2000, to have requested any information given to them orally by the directors or any other person on their behalf at the meeting.

