27 May 2008

Freeplay Energy plc

("Freeplay", "the Group" or "the Company")

Proposed disposal of the Freeplay Division

Freeplay Energy Plc, the original and global brand of clean, dependable energy products, is pleased to announce that, subject inter alia to Shareholders' approval, it has entered into conditional agreements to dispose of the Freeplay Division to Mr Devinder Raj Narang, Chairman of Narang Group India, for a total consideration of $14.5 million, subject to adjustment, which includes the assumption of approximately $5 million of debt.

Following the disposal of the Freeplay Division, the remaining company in the Group, apart from Freeplay Energy plc, will be Dixie Sales, the US based sales, marketing, distribution and customer service provider.

Summary

- In October 2006, Freeplay and Mr Narang entered into an agreement to establish a joint-venture company in India to exploit Freeplay's products in that market
- Mr Narang approached the Board of Freeplay Energy in April 2008 with an offer to purchase the Freeplay Division for a total consideration of $14.5 million, subject to adjustment, which includes the assumption of approximately $5 million of debt.
- Following the sale, Dixie Sales will be the remaining company within the Freeplay Energy group
- In addition, Colin Batt, Finance Director, and David Floyd, Managing Director Freeplay Division, will resign as directors of Freeplay but will continue to be employed by the Freeplay Division. Mr Narang has requested Rory Stear, Executive Chairman, to chair the Freeplay Division after completion of the sale. Mr Stear is currently considering the offer but has not reached agreement with Mr Narang. He will however continue as a director of Freeplay and chairman of the Board following the sale of the Freeplay Division

Rory Stear, Executive Chairman of Freeplay, commented:

"The Board of Freeplay Energy has worked closely with Mr Narang over the past 18 months and believes that, given the difficult market conditions coupled with the Group's additional working capital requirements, the proposals from Mr Narang to purchase the Freeplay Division are in the best interests of both the Company and Shareholders.

"Following the recent strategic review, Dixie Sales now has a compelling and competitive business proposition, which is to concentrate on expanding its key distribution channels and expanding geographically. The Board believes that Dixie Sales remains on course to return to profitability in 2008 and, consequently, we are confident of its future prospects".

- Ends -

For further information, please contact:

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Charles Stanley Securities (Nominated Adviser) Mark Taylor or Freddy Crossley	**020 7149 6000**

About Freeplay Energy plc

Freeplay Energy plc is the original and leading global brand of clean, dependable energy products. Freeplay Energy's clean, patented technology harnesses human, solar and rechargeable energy and converts it into electricity to power unique portable, consumer products replacing conventional disposable battery-powered systems that are environmentally toxic and expensive. The current product range includes radios, torches, lanterns, mobile phone chargers and standalone foot powered generators. Freeplay Energy's "Lifeline" radio is distributed throughout the developing world by The Freeplay Foundation (www.Freeplayfoundation.org) and other AID and Humanitarian organisations such as Unicef and other United Nations' agencies. Further information about Freeplay Energy plc and its products can be found at www.freeplayenergy.com.

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The sale of the Freeplay Division is deemed to be a disposal resulting in a fundamental change of business for the purpose of AIM Rule 15 and therefore is subject to Shareholder approval. The sale is also conditional upon obtaining all consents and permissions required from the Reserve Bank of India.

Background and reasons for the proposed disposal of the Freeplay Division

In October 2006 the Group entered into an agreement with Mr Narang to establish a joint venture company in India for the purpose of exploiting the Freeplay Division's products in India. Under that agreement Freeplay obtained a 50 per cent. interest in Freeplay Energy India with Mr Narang holding the remaining 50 per cent.. In February 2008 a new bespoke facility was established in India to begin production of Freeplay products for distribution and sale in India. This coincided with the first order for Freeplay Energy India being obtained from the Indian Farmers Fertiliser Co-operative for 225,000 units of a new LED lantern and another lighting product produced for the Indian market. Mr Narang approached the Board with an offer to purchase the Freeplay Division in April 2008.

Despite improvements made by the Group against a backdrop of significant restructuring, it has faced difficult consumer markets in all its divisions. This, coupled with the publicly stated requirement to raise additional funds in 2008, has meant that the Board needed to give special consideration to the offer received from Mr Narang.

The Board of Freeplay Energy has considered the instability of the financial markets which has given rise to concerns about the viability of raising additional funds and also by the fact that the Group is constrained by its existing bank facilities which are almost fully utilised with limited scope to increase them.

Given this difficult fiscal environment in which to raise additional funds required by the Group, the Board came to the conclusion that acceptance of Mr Narang's offer was in the best interests of the Company. Accordingly, the Board believes that the proposals are in the best interests of the Company and the Shareholders as a whole.

Following the disposal of the Freeplay Division the remaining company in the Group apart from Freeplay Energy plc will be Dixie Sales.

Freeplay Division

The Freeplay Division currently consists of Freeplay Market Development Limited ("FMD") and its wholly owned subsidiary incorporated in South Africa, Freeplay Market Development (Pty) Ltd, Baylis Generators Limited ("BGL") and its 50% interest in Freeplay Energy India. BGL does not trade but owns various patents and trade marks concerning the Freeplay Division business.

In the year to 31 December 2007, the turnover of the Freeplay Division was $7.9 million (2006: $7.1 million) and the loss for the Freeplay Division before Group common costs was $4.5 million (2006: $loss $3.8 million) as derived from the preliminary statement released on 13 May 2008. The total liabilities of the Freeplay Division at 31 December 2007 were $2.03 million (2006: Liabilities $1.63 million). The performance of the Freeplay Division in the year ended 31 December 2007 was significantly affected by the decision to terminate the five year agreement with World Phones to distribute the free charge mobile phone charger in Africa and the Caribbean region as a result of World Phone's failure to fulfil its contractual obligations to the Group.

Sale and Purchase Agreements

Freeplay has entered into three separate sale and purchase agreements with Mr Narang, each dated 23 May 2008 concerning the sale respectively of the entire issued share capital of FMD and BGL and the 50 per cent. interest held by Freeplay in Freeplay Energy India.

Under the sale and purchase agreement relating to the sale of FMD, Mr Narang will acquire 90 per cent. of the issued share capital of FMD on completion with the remaining 10% to be purchased by Mr Narang on or before 31 December 2009 for deferred consideration of $1.5 million.

The agreements are conditional upon, amongst other things, obtaining the authority of Shareholders for the disposal of the Freeplay Division and receipt by Mr Narang of all consents and permissions required from the Reserve Bank of India in connection with his purchase of the Freeplay Division.

The total purchase price for the sale of the Freeplay Division is $14.5 million, subject to adjustment, of which $1.5 million will be paid on or before 31 December 2009 for the remaining 10 per cent of FMD, and which includes the assumption of debt of approximately $5 million in respect of the Freeplay Division. The price assumes working capital for the Freeplay Division of no less than minus $2.1 million. In the event that the working capital is greater than minus $2.1 million additional consideration will be payable in respect of the surplus and in the event that the working capital is less than minus $2.1 million the price will be reduced by the shortfall.

In addition, Freeplay has provided certain warranties and indemnities to Mr Narang in connection with the Freeplay Division.

FMD will also take over the obligations of Freeplay to donate funds to the Freeplay Foundation for the purpose of meeting its administrative costs and also to provide its office accommodation.

Remaining Group

Following the sale of the Freeplay Division the remaining company in the Group will be Dixie Sales.

Dixie Sales 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 Sales also has electronic ordering and ecommerce tools.

Dixie Sales' revenues for the year ended to 31 December 2007 was $37.2 million, compared with $18.8 million for the last five months of 2006. Sales were down 3% on a like for like basis. This was due to poor weather conditions in the second half of 2007 and the decision to exit certain low margin businesses. Draught conditions in the South Eastern United States had a particularly negative impact on Dixie Sales' core outdoor product offering against a backdrop of difficult economic conditions. However, following a strong first half, the business still enjoyed a good year in light of the prevailing environmental conditions.

During 2007, Dixie Sales completed its strategic review as part of the overall Group restructuring and made significant progress in reducing its costs structure, exiting certain low margin businesses, reducing operating costs by approximately $3 million and refocusing the division away from low performing, low margin categories.

The Board believes that Dixie Sales now has a compelling and competitive business proposition, which is to concentrate on expanding its key distribution channels, including independent dealers, mass merchant and retail direct. In addition, Dixie continues to expand its geographic reach through its growth strategy in Canada by leveraging its key US based manufacturing and mass merchant relationships. This approach is proving to be successful in attracting new customers, evidenced by notable key new business wins including Canadian Tire Corporation, American Lawnmower Products and ATK, a hunting accessories manufacturer. The Board believes that Dixie remains on course to return to profitability in 2008. Some of the proceeds from the sale of the Freeplay Division are earmarked for Dixie Sales and this is expected to contribute to its further development. In addition, under Harold Reiter's leadership the Dixie Sales division moved into higher margin businesses, combined with a renewed focus on the "fee for service" model, thereby securing dual payment from both retails and customers. As a result, the Board is confident of the future prospects of the Dixie Sales business.

The Freeplay Division's current bank debt of approximately $5 million will be assumed by Mr Narang. Dixie Sales has its own bank facility for its working capital. It has a revolving credit facility with PNC Bank for up to $9.75 million. As at 30 April, 2008 the sum of $9.21 million was drawn down on this facility. Dixie Sales also has a number of long term leases totalling $151,650 of which $120,777 is payable within 12 months.

Circular to Shareholders

A circular will be sent to shareholders shortly convening a general meeting of the Company for the purpose of seeking Shareholders approval to the proposed sale of the Freeplay Division.

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For further information, please contact:

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