

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor or other independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities immediately.

Application has been made for the Ordinary Shares and Warrants of SectorGuard plc to be admitted to trading on the Alternative Investment Market of the London Stock Exchange (“AIM”). 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 established companies. AIM securities are not Officially Listed.

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 London Stock Exchange has not itself examined or approved the contents of this document.

A copy of this document, which comprises a prospectus drawn up in accordance with the Public Offers of Securities Regulations 1995 as amended (the “Regulations”), has been issued in connection with the application for admission to trading of the Ordinary Shares and Warrants on AIM and has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the Regulations.

SectorGuard plc

(Incorporated and registered in England and Wales with Registered No. 3553625)

Placing of 29,000,000 Ordinary Shares at 3p per share and issue of one Warrant for every five Ordinary Shares subscribed in the Placing

Admission to trading on the Alternative Investment Market

Nominated Adviser

Seymour Pierce Limited

Broker

Seymour Pierce Ellis Limited

SHARE CAPITAL IMMEDIATELY FOLLOWING THE PLACING

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
£2,000,000	400,000,000	Ordinary Shares of 0.5p each	£457,500	91,500,000

The 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 of the London Stock Exchange (“AIM Rules”). To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts, and this document makes no omission likely to affect the import of such information. In connection with this document and/or the invitation contained in it, no person is authorised to give any information or make any representation other than as contained in this document.

Seymour Pierce Limited and Seymour Pierce Ellis Limited, which are regulated by The Financial Services Authority, are acting as Nominated Adviser and Broker respectively, in each case exclusively for the Company in connection with the proposed admission of the Ordinary Shares and Warrants to trading on AIM and are not acting for any other person and will not be responsible to any other person for providing the protections afforded to customers of Seymour Pierce Limited and Seymour Pierce Ellis Limited, or for advising any other person in connection with the Placing. The responsibilities of Seymour Pierce Limited, as Nominated Adviser, are owed solely to the London Stock Exchange.

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DIRECTORS, SECRETARY AND ADVISERS

Directors: Peter Gorty, *Non-executive Chairman*
David Jeffrey Marks FCA, *Chief Executive*
Gideon Jacob Lyons, *Non-executive Director*

all of:

Registered Office: No. 1 Riding House Street
London W1A 3AS

Company Secretary: David Jeffrey Marks FCA

Nominated Adviser: Seymour Pierce Limited
29/30 Cornhill
London EC3V 3NF

Broker: Seymour Pierce Ellis Limited
Talisman House
Jubilee Walk
Three Bridges
Crawley
West Sussex RH10 1LQ

Solicitors to the Company: Nabarro Nathanson
The Anchorage
34 Bridge Street
Reading
Berkshire RG1 2LU

Solicitors to the Placing: Hammond Suddards Edge
7 Devonshire Square
Cutlers Gardens
London EC4M 4YH

Auditors and Reporting Accountants: Smith & Williamson
No. 1 Riding House Street
London W1A 3AS

Registrars: Capita Harford
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Principal Bankers: Barclays Bank plc
50 Pall Mall
London SW1A 1QA

DEFINITIONS

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

“Act”	the Companies Act 1985 (as amended)
“Admission”	admission of the Ordinary Shares (including the Placing Shares) and Warrants to trading on AIM becoming effective
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules for AIM companies and their nominated advisers published by the London Stock Exchange
“Board” or “Directors”	the directors of the Company whose names are set out on page 3
“Bonus Issue”	the conditional bonus issue of 25,000,000 new Ordinary Shares to be allotted to the Shareholders appearing on the register of members on 4 March 2002 (being the date of the resolution to approve the Bonus Issue) if the audited profit before tax for the year ending 30 September 2002 is £500,000 or more
“BSIA”	British Security Industry Association
“Company” or “SectorGuard”	SectorGuard plc
“CREST”	the computerised settlement system to facilitate the transfer of title to or interests in securities in uncertificated form, operated by CRESTCo Limited
“London Stock Exchange”	London Stock Exchange plc
“Official List”	the official list of the UKLA and “Officially Listed” shall be construed accordingly
“Ordinary Shares”	ordinary shares of 0.5p each in the Company
“Placing”	the placing by Seymour Pierce Ellis of 29,000,000 Placing Shares at the Placing Price pursuant to the Placing Agreement as described in this document
“Placing Agreement”	the conditional placing and underwriting agreement dated 8 March 2002 between the Company (1), the Directors (2), Seymour Pierce (3) and Seymour Pierce Ellis (4) relating to the Placing, details of which are set out in paragraph 7.1 of Part III of this document
“Placing Price”	3p per Placing Share
“Placing Shares”	the 29,000,000 new Ordinary Shares to be issued in connection with the Placing
“Regulations”	the Public Offers of Securities Regulations 1995 (as amended)
“Seymour Pierce”	Seymour Pierce Limited
“Seymour Pierce Ellis”	Seymour Pierce Ellis Limited
“Shareholders”	holders of Ordinary Shares

“Share Option Schemes”	the arrangements approved by the Company for the grant of options over new Ordinary Shares to employees of the Company referred to in paragraph 9 of Part III of this document
“SITO”	Security Industry Training Organisation Limited
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UKLA”	United Kingdom Listing Authority, being 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
“Warrants”	warrants to subscribe for 18,300,000 Ordinary Shares at the Placing Price, the further terms of which are as described in paragraph 8 of Part III of this document

PLACING STATISTICS

Placing Price	3p
Number of new Ordinary Shares being issued pursuant to the Placing	29,000,000
Percentage of enlarged issued share capital being placed	31.69%
Estimated net proceeds of the Placing to be received by the Company	£570,000
Market capitalisation of the issued ordinary share capital at the Placing Price on Admission	£2.745 million

EXPECTED TIMETABLE

Admission and dealings commence in the Ordinary Shares and Warrants on AIM	13 March 2002
CREST accounts credited by	13 March 2002
Despatch of definitive share and Warrant certificates by	20 March 2002

PART I

INFORMATION ON THE COMPANY

Introduction

SectorGuard is an established provider of manned guarding solutions to the public and private sectors. The Company supplies trained and vetted uniformed security officers to a wide range of clients across London and the home counties, including the London Boroughs of Camden and Brent, Shell International and the Canary Wharf development.

Since its incorporation in 1998, the Company has grown rapidly and in the year ended 30 September 2001, a profit before tax of over £102,000 was generated on turnover of almost £4.3 million. The Company seeks to maintain the highest levels of service and is a member of the British Security Industry Association and the Security Industry Training Organisation. The Company is also accredited under EN ISO 9002 and David Marks, the founder and chief executive of the Company, is a founder member of the Guild of Security Professionals.

The Business

Since its incorporation the Company has developed both organically and through making a number of complementary acquisitions. The business now comprises three principal services:

Manned Guarding Services

The Company supplies trained, uniformed personnel to assist clients with their reception, front of house, portage, system monitoring and health and safety requirements. The staff placed at clients' premises are backed up by mobile supervisors and the officers are trained to deal with both routine tasks and major incidents. Quality of service is maintained through regular inspections by area supervisors and management and is monitored through the Company's quality control systems.

In the year ended 30 September 2001, 94 per cent. of the Company's turnover was generated from manned security contracts. The largest clients in that period included Oxford Brookes University, the London Borough of Brent and J Mowlem Civil Engineering.

The Company predominantly services the private sector, with public service sector clients accounting for less than 10 per cent. of turnover in the year ended 30 September 2001. This is principally as a result of the Company not competing necessarily on price (on which basis alone over 60 per cent. of public service contracts are awarded) as the Directors believe that many clients are prepared to pay a higher hourly rate for the higher quality guarding services which the Company provides. The Directors believe that this high quality strategy appeals to a sufficiently wide customer base for the Company to continue to pursue it. The Company, however, has the flexibility in its structure to offer a cheaper, and by necessity more basic, service where necessary.

Mobile Patrol Services

The Company's mobile patrol services provide large area patrols as well as attending client premises for locking and unlocking. All locations can be patrolled using scheduled or random visits.

Keyholding and Alarm Response

The Company holds keys to clients' premises and provides a response service to alarm activations. This service is provided independently of either police or client attendance on an alarm activation. The alarm response staff seek to confirm the nature of the alarm activation and secure the premises.

Each of the Company's security services is monitored and administered from the Company's 24 hour national control centre, based in Sawbridgeworth, Hertfordshire. The control centre deals with guard rosters and response services, manned site backup, emergency site coverage and incident support.

The Company is dedicated to providing a high level of reassurance to clients regarding the quality of the security personnel provided by the Company. The Directors believe that concerns regarding the probity of security personnel has, in the past, affected the views of potential clients towards the security industry. The Company seeks to alleviate these concerns by being highly selective in its recruitment of security officers and, in particular, all staff are vetted to British Standard 7858, including a ten year reference period, personal referees and prior work experience assessment.

The Directors also regard training as an essential issue in the development of its employees and the Company has invested in developing its own SITO approved training centre. All new employees undergo a SITO two day basic job training programme followed by site specific training and the Company encourages further training for both security officers and management.

The Market

The BSIA estimates that of the 8,000 security companies operating in the UK, approximately 2,000 offer manned security services, employing some 125,000 security officers. The BSIA also estimates that the in-house manned security sector has halved since 1993 and the Directors believe that this factor has had a significant contribution to the growth of the Company since its incorporation.

The BSIA also estimates that the total UK turnover in 2000 related to manned security services was over £1.6 billion.

Until recently, the security industry was largely unregulated although a number of trade organisations exist. In recent years, the regulation affecting the industry has increased with the introduction of the Working Time Directive and the effect of the UK minimum wage regime. However, until the Private Security Industry Act 2001 ("PSIA") was passed there was no complete regulatory regime for the security industry. The advent of the PSIA marks a new era for the security industry in the UK. The PSIA has not yet come into force, but this is expected to be implemented by June 2003 upon the creation of the new regulatory authority, the Security Industry Authority.

The PSIA establishes a voluntary 'approved companies scheme' which will be open to companies which make an extra commitment to meet recognised industry standards. The Directors believe that SectorGuard already meets the criteria which will enable it to qualify for 'approved company' status and expect the Company to join the scheme once it comes into force.

The Directors also believe that, as the Company already has significant quality controls in place, it will be able to adapt more easily to the PSIA's quality requirements than some of its competitors who focus more on price rather than quality of service when attempting to win contracts for manned security services.

The PSIA will also require all security officers, managers and directors of security companies to hold a licence to work in the security industry.

Employees

The Company employs over 250 people, of whom approximately 225 are security officers with the balance being engaged in management, supervisory or administrative roles.

Current Trading

The Company has traded satisfactorily since 30 September 2001 and operating profit is in line with budget. Sales for the five months since 30 September 2001 have been strongly ahead of the comparable period in the previous year, reflecting the consolidation of the business contracts acquired from Abbot Security Services (1997) Limited in August 2001 into SectorGuard's operations.

Growth Strategy and Prospects

Although the Directors will continue to develop the Company organically, they believe that this development can be enhanced and profits significantly increased through selective acquisitions. The Company has already acquired four businesses since its incorporation and is in discussions with a number of possible acquisition targets.

The Directors also believe there is scope to expand the services offered by SectorGuard both in terms of the geographical regions covered and the range of client services. In particular the Directors are considering expanding the Company's activities to provide retail and event security. The Directors are confident regarding the Company's immediate prospects.

Bonus Issue

On 4 March 2002, a resolution to approve a conditional Bonus Issue of 25,000,000 new Ordinary Shares to the Shareholders on the register on 4 March 2002 was passed. New Ordinary Shares will only be issued pursuant to the Bonus Issue to such Shareholders if the audited profit before tax of the Company for the year ending 30 September 2002 is £500,000 or over.

The new Ordinary Shares to be issued pursuant to the Bonus Issue will represent 21.46 per cent. of the issued share capital of the Company as enlarged by the Bonus Issue (assuming none of the Warrants have been exercised).

If the Company's audited profit before tax for the year ending 30 September 2002 is less than £500,000, no new Ordinary Shares will be issued pursuant to the Bonus Issue.

Directors

Peter Gorty, aged 57, Non-executive Chairman

Peter was a partner at Nabarro Nathanson, one of the leading law firms in the UK, from 1972 until his retirement in 1998 where he practised as a corporate/commercial lawyer and was head of the corporate department for several years. He is currently an executive director of FDG Associates Limited, an executive search company operating in the legal and energy sectors. He also acts as a legal consultant. He has been a director of many quoted and private companies including Stat-Plus Group Limited where he was Chairman prior to its takeover.

David Marks FCA, aged 41, Chief Executive

David is a Chartered Accountant with experience of working within the service sector. He established the Company in 1998 and has been Managing Director with overall responsibility for the direction of the Company since incorporation. He is also Managing Director of Sectoralarm Limited, a company which specialises in the installation and maintenance of fire alarm, intruder alarm, closed circuit television and access control systems. He is a founder member of the Guild of Security Professionals.

Gideon Lyons, aged 40, Non-executive Director

Gideon was the Chairman and Managing Director of an international motor component manufacturer whose products were used by 90 per cent. of major European automotive manufacturers. He is a fifty per cent. founding shareholder of a retailing group that operates both on the high street and at factory outlet locations. The group has a number of Levi Strauss franchises, is a distributor for the CAT brand boot at the factory outlets and has set up 11 Bed and Bath Works shops at factory outlet centres.

Gideon is a non executive director of Wire 2 Limited that trades as Newslink and Newslink Financial. Newslink is a news aggregation service that transfers content direct from freelance journalists to media in the United Kingdom, including all national newspapers, most regional paid for papers, BBC and ITV newsrooms, independent radio and other media such as magazines. Newslink Financial provides regulatory information services. The Financial Services Authority has approved Newslink Financial to be one of the five approved services which listed companies will be able to use to disseminate their regulatory news with effect from 2 April 2002.

Gideon has investments in a number of unquoted private companies.

The Company has taken out key man insurance on the life of David Marks for the sum of £1,000,000.

Further information on the Directors is set out in paragraphs 4, 5 and 6 of Part III of this document.

Details of the Placing and Admission

The Company is proposing to raise approximately £570,000 (net of estimated expenses) by the placing of 29,000,000 Placing Shares with investors, representing approximately 31.69 per cent. of the issued share capital of the Company at Admission.

Seymour Pierce Ellis has agreed, pursuant to the Placing Agreement and conditional, *inter alia*, on Admission, to use its reasonable endeavours to place the Placing Shares with investors, failing which it will itself subscribe for any Placing Shares not taken up under the Placing.

Peter Gorty and Gideon Lyons are subscribing for 166,667 and 250,000 Ordinary Shares respectively pursuant to the Placing.

Application has been made for the Ordinary Shares (including those issued pursuant to the Placing) and Warrants to be traded on AIM. Dealings are expected to commence on 13 March 2002.

The Placing Shares will be placed free of expenses and will rank, *pari passu* in all respects with the existing Ordinary Shares including the right to all dividends and other distributions declared paid or made after the date of issue.

Each of the existing Shareholders and Peter Gorty and Gideon Lyons has undertaken that they will not (and will procure, insofar as they are able, that any person with whom they are connected for the purposes of section 346 of the Act will not) dispose of any interest in Ordinary Shares or Warrants held by them (or any such connected person) on the date of Admission for a period of 12 months from Admission in the case of the Directors, B Myers and D Sullivan and 6 months from Admission in the case of the other existing Shareholders, save in certain limited circumstances, and then will only dispose of any Ordinary Shares or Warrants following consultation with the Company's nominated adviser and then only through the Company's broker save in respect of Baltic Securities plc for whom this restriction applies for a further six months only.

Further details of the Placing Agreement are set out in paragraph 7.1 of Part III of this document.

Reasons for the Placing and use of funds

The proceeds of the Placing will be used primarily to fund the working capital requirements of the Company, including to finance future acquisitions and expand the marketing activities of the Company.

Corporate Governance

The Directors intend, in so far as practicable given the Company's size and the constitution of the Board, to comply with the main provisions of the Combined Code: Principles of Corporate Governance and Code of Best Practice derived from the final report published by the committee on Corporate Governance chaired by Sir Ronald Hampel which will be consistent with the recommendations on Corporate Governance of the Quoted Companies Alliance. In this connection, the Board is not intending to appoint further non-executive directors in the immediate future.

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

Share Option Schemes

The Directors believe that by offering the possibility of share ownership in the Company to both the security officers and other staff of the Company it will be able to incentivise employees and reward them for providing a high level of service to clients. The Directors also believe that participation in a share option scheme will lead to a higher employee retention rate thus providing clients with more permanent security teams and the Company with a better return on its investment in its employees.

To this end the Company will adopt an Inland Revenue approved share option scheme details of which are set out in paragraph 9 of Part III of this document and will be seeking Inland Revenue approval following Admission for an Enterprise Management Incentive scheme.

The Board has agreed to grant 2,578,333 options pursuant to the Share Option Scheme, exercisable at the Placing Price (subject to Inland Revenue approval). Included in this number is an aggregate of 1,166,667 options to be granted to Peter Gorty, David Marks and Gideon Lyons.

Warrants

On 7 March 2002 the Company adopted a warrant instrument under which the holder of each Warrant will be entitled to subscribe for one new Ordinary Share at the Placing Price. The Warrants may be exercised at any time between Admission and the third anniversary of Admission and are freely transferable. Application has been made for the Warrants to be admitted to trading on AIM

at Admission. The Company shall issue one Warrant for every five Ordinary Shares subscribed for in the Placing and, conditional on Admission, each existing Shareholder will be granted one Warrant for every five Ordinary Shares held by him on Admission. Fractional entitlements to Warrants will be ignored.

If all Warrants in issue on Admission are exercised 18,300,000 new Ordinary Shares would be issued, representing 16.67 per cent. of the issued share capital of the Company, as enlarged by such issue.

Further details of the terms of the Warrants are set out in paragraph 8 of Part III of this document.

Enterprise Investment Scheme and Venture Capital Trusts

The Company has received provisional approval from the Inland Revenue that the Ordinary Shares to be issued by the Company in the Placing are a “qualifying holding” for the purposes of investment by venture capital trusts (“VCTs”) and will rank as “eligible shares” for the purposes of the Enterprise Investment Scheme (“EIS”).

The availability of EIS reliefs will be dependent, *inter alia*, on the personal circumstances of the individual investor and the Company continuing to satisfy the requirements for a qualifying company throughout a qualifying period from the date of issue of the Ordinary Shares. Tax reliefs for investments through VCTs should be available as long as the Ordinary Shares represent a “qualifying holding” for VCT purposes. The Company does not make any representations as to whether any such investment will be or will continue to be one in respect of which relief under the EIS or VCT legislation will be available.

EIS allows the following tax reliefs for qualifying individual investors provided investments are held for the qualifying period in respect of investments of up to their annual subscription limit, which in the tax year 2001/2002 is £150,000 per individual. This is on the basis that neither the company nor the investor breach any of the conditions during the three-year period:

- initial income tax relief of 20 per cent. of the amount subscribed limited to the income tax liability of the investor for the year of subscription; and
- exemption from capital gains tax (“CGT”) on a disposal, provided income tax relief was given in respect of the cash subscription and not withdrawn.

The EIS also allows CGT payable on any chargeable gains realised by individuals and certain trustees to be deferred until the EIS investment comes to an end. To qualify for CGT deferral, a sum up to the amount of the chargeable gain must be subscribed (not more than one year before nor more than three years after the date on which the chargeable gain arises) in new “eligible shares in a qualifying company” for the purposes of the EIS. For this purpose a qualifying company includes an unquoted company which is the parent of a qualifying trading group. For this purpose, shares admitted to AIM are regarded as unquoted.

A claim for CGT deferral relief is made by the individual investors and/or trustees claiming the relief. There is no maximum investment limit for CGT deferral purposes.

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

Dividend Policy

It is the intention of the Directors to aim for capital growth and, as the Company is at an early stage of implementing its strategy, it is inappropriate to give an indication of the likely level or timing of any future dividends.

Taxation

Information regarding taxation in relation to the Placing and Admission is set out in paragraph 12 of Part III of this document. If you are in any doubt as to your tax position you should consult your own independent financial adviser immediately.

Crest

The Company's articles of association permit the Company to issue shares in uncertificated form in accordance with the Uncertificated Securities Regulations 2001. Application has been made for the Ordinary Shares and Warrants to be admitted to CREST on Admission. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

Risk Factors

The Directors consider the following risk factors to be the most significant for potential investors, but the risks listed do not necessarily comprise all those associated with an investment in the Company:

- The future success of the Company depends largely on the expertise of David Marks and certain key employees. Whilst the Company has entered into contractual arrangements with the aim of securing the services of David Marks and such employees, the retention of their services is not guaranteed. The loss of key personnel could have a material adverse effect on the Company's future. However, to mitigate this effect, the Company has purchased key man insurance on the life of David Marks for the sum of £1,000,000.
- The Directors are aware of other companies which offer similar services to those offered by the Company. There is a risk that such companies' services will more successfully penetrate the markets chosen by the Company.
- The value of an investment in the Company is dependent upon the Company achieving the aims set out in this document. There can be no guarantee that the Company will achieve the level of success that the Directors expect.
- It may be difficult for an investor to sell his or her Ordinary Shares or Warrants and he or she may receive less than the amount paid for them. The Ordinary Shares and Warrants may not be suitable for short-term investment. The Ordinary Shares and Warrants will not be quoted on the Official List. Investments in securities traded on AIM carry a higher degree of risk than investments in securities quoted on the Official List. There is no present intention that the Ordinary Shares or Warrants be admitted to the Official List.
- The market price of the Ordinary Shares and Warrants may not reflect the underlying value of the Company's net assets.
- There is a risk that investments in Ordinary Shares will not represent "eligible shares" and/or a "qualifying holding" for EIS and VCT purposes respectively.

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 adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

PART II
ACCOUNTANTS' REPORT ON SECTORGUARD PLC

Smith & Williamson

The Directors

SectorGuard plc
Gainsborough House
Sheering Lower Road
Sawbridgeworth
Herts CM21 9RG

The Directors

Seymour Pierce Limited
29/30 Cornhill
London EC3V 3NF

8 March 2002

Dear Sirs

SectorGuard plc (“the Company”)

We report in connection with the admission document comprising a prospectus issued by the Company dated 8 March 2002 (“the Prospectus”) in respect of the admission to trading on the Alternative Investment Market of the London Stock Exchange plc of the ordinary shares and warrants in the Company and the proposed placing of ordinary shares and issue of warrants in the Company.

Introduction

The Company was incorporated in England and Wales on 27 April 1998 as Shelfco (No. 1470) Limited. The Company changed its name to Sectorguard Limited on 29 June 1998 and commenced trading on 1 October 1998. On 5 March 2002 the Company was re-registered as a public limited company and changed its name to SectorGuard plc.

Basis of preparation

The financial information set out below is extracted from the audited financial statements of the Company for the period from the date of incorporation on 27 April 1998 to 30 September 1999 and the two years ended 30 September 2001, to which we have made no adjustment.

The financial statements for each of the periods were audited by Smith & Williamson. Unqualified audit opinions were given on the financial statements for each of the periods.

Responsibility

Such financial statements are the responsibility of the Directors of the Company who approved their issue. The Directors of the Company are responsible for the contents of the Prospectus in which this report is included.

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

Basis of opinion

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

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

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Prospectus dated 8 March 2002, a true and fair view of the state of affairs of the Company as at the dates stated, and of its profits and cash flows for the periods then ended.

Consent

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

Smith & Williamson
Chartered Accountants
Registered Auditors

8 March 2002

PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	2001 £	2000 £	1999 £
Turnover	2	4,279,267	3,734,323	2,588,673
Cost of sales		(3,395,404)	(2,865,958)	(1,990,752)
Gross profit		<u>883,863</u>	<u>868,365</u>	<u>597,921</u>
Administrative expenses		(702,630)	(689,731)	(478,826)
Operating profit		<u>181,233</u>	<u>178,634</u>	<u>119,095</u>
Interest receivable and similar income		891	1,679	1,743
Interest payable and similar charges	5	(79,810)	(66,058)	(28,898)
Profit on ordinary activities before taxation	6	<u>102,314</u>	<u>114,255</u>	<u>91,940</u>
Tax on profit on ordinary activities	7	(35,872)	(33,404)	(24,189)
Retained profit for the financial year	19	<u><u>66,442</u></u>	<u><u>80,851</u></u>	<u><u>67,751</u></u>
Earnings per ordinary share				
– basic and diluted	8	<u><u>£6.64</u></u>	<u><u>£8.09</u></u>	<u><u>£9.32</u></u>

All of the Company's operations are classed as continuing. There were no gains or losses in any of the periods other than those included in the above profit and loss account.

BALANCE SHEET

	<i>Notes</i>	2001 £	2000 £	1999 £
Fixed assets				
Intangible assets	9	1,394,971	904,481	726,905
Tangible assets	10	230,267	256,670	109,162
		<u>1,625,238</u>	<u>1,161,151</u>	<u>836,067</u>
Current assets				
Debtors	11	894,877	682,459	429,515
Cash at bank and in hand		8,424	13,070	44,632
		<u>903,301</u>	<u>695,529</u>	<u>474,147</u>
Creditors: amounts falling due within one year	12	<u>(1,047,167)</u>	<u>(637,723)</u>	<u>(466,153)</u>
Net current (liabilities)/assets		<u>(143,866)</u>	<u>57,806</u>	<u>7,994</u>
Total assets less current liabilities		<u>1,481,372</u>	<u>1,218,957</u>	<u>844,061</u>
Creditors: amounts falling due after more than one year	13	(688,448)	(467,725)	(205,180)
Provisions for liabilities and charges	16	(6,750)	(31,500)	–
		<u>786,174</u>	<u>719,732</u>	<u>638,881</u>
Net assets		<u><u>786,174</u></u>	<u><u>719,732</u></u>	<u><u>638,881</u></u>
Capital and reserves				
Called up share capital	17	10,000	10,000	10,000
Share premium account	18	561,130	561,130	561,130
Profit and loss account	19	215,044	148,602	67,751
		<u>786,174</u>	<u>719,732</u>	<u>638,881</u>
Shareholders' funds	20	<u><u>786,174</u></u>	<u><u>719,732</u></u>	<u><u>638,881</u></u>

CASH FLOW STATEMENT

	<i>Notes</i>	2001 £	2000 £	1999 £
Net cash inflow from operating activities	21a	367,191	146,212	73,456
Returns on investment and servicing of finance				
Interest received		891	1,679	1,743
Interest paid		(69,476)	(59,086)	(28,346)
Hire purchase interest paid		(10,334)	(6,972)	(552)
Net cash (outflow) on returns on investment and servicing of finance		(78,919)	(64,379)	(27,155)
Taxation				
Corporation tax paid		(27,497)	(20,097)	–
Capital expenditure				
Payments to acquire intangible fixed assets		(556,675)	(204,202)	(754,767)
Payments to acquire tangible fixed assets		(14,453)	(61,729)	(76,653)
Proceeds from sale of tangible fixed assets		8,224	–	–
Net cash (outflow) from capital expenditure		(562,904)	(265,931)	(831,420)
Net cash (outflow) before financing		(302,129)	(204,195)	(785,119)
Financing				
Issue of ordinary share capital		–	–	600,000
Share issue costs		–	–	(28,870)
Repayment of loans		(84,120)	(84,120)	–
New long term loans		450,000	297,787	263,256
Capital element of hire purchase payments		(74,910)	(41,034)	(4,635)
		290,970	172,633	829,751
(Decrease)/increase in cash in year	21c	<u>(11,159)</u>	<u>(31,562)</u>	<u>44,632</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

A summary of the more important accounting policies adopted are described below.

Basis of accounting

The financial information has been prepared under the historical cost convention.

Pension costs

Contributions to defined contribution schemes are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Fixed assets

Depreciation is provided on cost or revalued amounts in equal annual instalments over the estimated useful lives of the assets concerned. The following annual rates are used.

Fixtures and fittings	- 20 per cent. straight line
Motor vehicles	- 25 per cent. straight line

Goodwill

Goodwill arises on the acquisition of business assets and represents the excess of the fair value of consideration over the fair value of identifiable net assets acquired. Goodwill is capitalised and written off on a straight line basis over 20 years.

Deferred taxation

Deferred taxation is provided for on a full provision basis on all timing differences that have arisen but not reversed at the balance sheet date. A deferred tax asset is not recognised to the extent that the transfer of economic benefit in future is uncertain. Any assets and liabilities recognised have not been discounted.

Leases

Assets held under finance leases are included in fixed assets and the capital element of the related lease commitment is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit over the period of the lease.

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Financial instruments

Financial instruments are accounted for in accordance with FRS 13 “Derivatives and other financial instruments”.

2. Turnover and segmental information

Turnover represents amounts receivable for services net of VAT and trade discounts.

In the opinion of the directors, the Company operates in one class of business. All turnover relates to the United Kingdom and is sourced from the United Kingdom.

3. Directors' remuneration

	2001	2000	1999
	£	£	£
Aggregate emoluments	73,595	77,935	76,279
Company pension contributions to money purchase scheme	7,065	6,300	6,000

Retirement benefits are accruing to one director (2000: one, 1999: one) under a money purchase defined contributions scheme.

4. Employee information

The average number of persons, including directors employed by the Company during the year was:

	Number	Number	Number
Operations – Security officers	189	170	130
Operations – Staff	7	6	6
Selling and distribution	2	2	1
Administration	8	8	3
	206	186	140

Staff costs for the above persons were:

	£	£	£
Wages and salaries	3,094,585	2,767,901	1,906,983
Social security costs	279,800	247,782	168,692
Pension costs	7,065	6,300	6,000
Other staff costs	1,252	1,478	1,579
	3,382,702	3,023,461	2,083,254

5. Interest payable and similar charges

	£	£	£
Bank loans and overdrafts	52,009	46,982	21,740
Debentures and other loans	17,467	12,104	6,606
On finance leases	10,334	6,972	552
	79,810	66,058	28,898

6. Profit on ordinary activities before taxation is stated after charging/(crediting):

	£	£	£
Depreciation			
– owned assets	35,444	25,237	9,875
– assets held under finance leases	43,615	23,856	2,454
Amortisation of goodwill	52,273	46,626	27,862
Auditors' remuneration	7,500	7,500	7,200
Hire of plant and machinery – operating leases	10,543	9,052	4,763
Other operating leases	34,527	16,810	–
Exceptional profit on major contract*	(120,000)	–	–

*This item represents an amount included in turnover, invoiced to the vendor of the contract, to cover the four month period to 1 August 2001, during which the company acted as agent to the vendor in the maintenance of the contract. The acquisition of this contract by the company was completed on 1 August 2001 and the related business continues to be operated by the company.

7. Taxation

	2001 £	2000 £	1999 £
(a) Tax on profit on ordinary activities			
UK corporation tax at 20 per cent. (2000: 20 per cent., 1999: 20 per cent.)	39,125	26,000	24,189
Under/(over) provision for the period	1,497	(4,096)	–
Total current tax (note 7b)	<u>40,622</u>	<u>21,904</u>	<u>24,189</u>
Deferred taxation – origination and reversal of timing differences (note 16)	(4,750)	11,500	–
	<u><u>35,872</u></u>	<u><u>33,404</u></u>	<u><u>24,189</u></u>

(b) Factors affecting tax charge for the period

The tax assessed for the period is greater than the standard rate of corporation tax in the United Kingdom (30 per cent.). The differences are explained below.

	£	£	£
Profit on ordinary activities before tax	<u>102,314</u>	<u>114,255</u>	<u>91,940</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent. (2000: 30 per cent., 1999: 30 per cent.)	30,694	34,278	27,582
Effects of:			
Expenses not deductible for tax purposes (primarily goodwill amortisation and fixed asset depreciation)	40,624	28,718	12,919
Capital allowances for period	(17,927)	(27,613)	(11,341)
Marginal relief	(14,266)	(9,383)	(4,971)
Adjustments to tax charge in respect of previous years	1,497	(4,096)	–
Current tax charge for year (note 7a)	<u><u>40,622</u></u>	<u><u>21,904</u></u>	<u><u>24,189</u></u>

8. Earnings per ordinary share – basic and diluted

Earnings per ordinary share are calculated by dividing the profit attributable to ordinary shareholders for the period of £66,442 (2000: £80,851, 1999: £67,751) by 10,000 (2000: 10,000, 1999: 7,271) being the average number of ordinary £1 shares in the Company during the period.

9. Intangible fixed assets

	<i>Goodwill</i> £
Cost	
At 27 April 1998	–
Additions	<u>754,767</u>
At 30 September 1999	754,767
Additions	<u>224,202</u>
At 30 September 2000	978,969
Additions	556,675
Release (see note 16)	<u>(13,912)</u>
At 30 September 2001	<u>1,521,732</u>
Amortisation	
At 27 April 1998	–
Additions	<u>27,862</u>
At 30 September 1999	27,862
Additions	<u>46,626</u>
At 30 September 2000	74,488
Charge for the year	<u>52,273</u>
At 30 September 2001	<u>126,761</u>
Net book value	
At 30 September 2001	<u>1,394,971</u>
At 30 September 2000	<u>904,481</u>
At 30 September 1999	<u>726,905</u>

For the above acquisitions, goodwill was the only asset acquired. Goodwill therefore represents the total consideration.

10. Tangible fixed assets

	<i>Fixtures & Fittings</i> £	<i>Motor Vehicles</i> £	<i>Total</i> £
Cost			
At 27 April 1998	–	–	–
Additions	63,256	58,235	121,491
At 30 September 1999	63,256	58,235	121,491
Additions	80,473	116,128	196,601
At 30 September 2000	143,729	174,363	318,092
Additions	14,453	47,238	61,691
Disposals	–	(10,806)	(10,806)
At 30 September 2001	158,182	210,795	368,977
Depreciation			
At 27 April 1998	–	–	–
Charge for the period	8,136	4,193	12,329
At 30 September 1999	8,136	4,193	12,329
Charge for the year	20,238	28,855	49,093
At 30 September 2000	28,374	33,048	61,422
Charge for the year	30,445	48,614	79,059
Disposals	–	(1,771)	(1,771)
At 30 September 2001	58,819	79,891	138,710
Net book value			
At 30 September 2001	99,363	130,904	230,267
At 30 September 2000	115,355	141,315	256,670
At 30 September 1999	55,120	54,042	109,162

The net book value of tangible assets includes an amount of £122,646 (2000: £128,508, 1999: £35,786) in respect of assets held under hire purchase and finance leases.

11. Debtors

	2001 £	2000 £	1999 £
Trade debtors	731,377	570,603	399,798
Other debtors	60,330	70,220	16,961
Prepayments	103,170	41,636	12,756
	894,877	682,459	429,515

12. Creditors: amounts falling due within one year

	£	£	£
Bank overdraft	6,513	–	–
Bank loan (note 14)	196,620	84,120	84,120
Obligations under finance leases	71,536	59,115	14,159
Trade creditors	120,246	39,876	13,118
Corporation tax	39,125	26,000	24,189
Other taxation and social security	490,782	290,383	148,381
Other creditors	97,191	8,895	132,025
Accruals	25,154	129,334	50,161
	1,047,167	637,723	466,153

13. Creditors: amounts falling due after more than one year

	2001	2000	1999
	£	£	£
Bank loans (note 14)	646,183	392,803	179,136
Obligations under finance leases	42,265	74,922	26,044
	<u>688,448</u>	<u>467,725</u>	<u>205,180</u>

14. Borrowings

	£	£	£
Falling due within one year			
Bank loans	196,620	84,120	84,120
Falling due after more than one year			
Bank loans	646,183	392,803	179,136
	<u>842,803</u>	<u>476,923</u>	<u>263,256</u>
Repayable as follows:			
In one year or less	196,620	84,120	84,120
Between one and two years	196,620	84,120	79,616
Between two and five years	449,563	308,683	99,520
	<u>842,803</u>	<u>476,923</u>	<u>263,256</u>

The loans are repayable in equal quarterly instalments at fixed and variable interest rates, and are secured by a debenture on the assets of the Company and keyman life assurance on the life of David Marks, a director of the Company.

15. Finance leases

The net finance lease obligations to which the Company is committed are:

	£	£	£
In one year or less	71,536	59,115	14,159
Between one and two years	34,223	56,407	14,159
Between two and five years	8,042	18,515	11,885
	<u>113,801</u>	<u>134,037</u>	<u>40,203</u>

16. Provisions for liabilities and charges

	2001 £	2000 £	1999 £
Deferred taxation	6,750	11,500	–
Deferred consideration on the purchase of contracts	–	20,000	–
	<u>6,750</u>	<u>31,500</u>	<u>–</u>

The amount of deferred tax provided and unprovided at the year end was as follows:

	2001		2000		1999
	<i>Provided</i> £	<i>Unprovided</i> £	<i>Provided</i> £	<i>Unprovided</i> £	<i>Provided and Unprovided</i> £
Deferred tax liability – accelerated capital allowances	<u>6,750</u>	<u>–</u>	<u>11,500</u>	<u>–</u>	<u>–</u>
					<i>Deferred tax</i> £

Movement in the year:

At 27 April 1998 and at 30 September 1999	–
Charge for period	<u>11,500</u>
At 30 September 2000	11,500
Credit for the year	<u>(4,750)</u>
At 30 September 2001	<u>6,750</u>
	<i>Deferred consideration</i> £
At 27 April 1998 and at 30 September 1999	–
Charge for year	<u>20,000</u>
As at 30 September 2000	20,000
Paid during year	<u>(6,088)</u>
Released to goodwill	<u>(13,912)</u>
As at 30 September 2001	<u>–</u>

17. Called up share capital

	2001 £	2000 £	1999 £
Authorised 1,000,000 ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid 10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>

On 27 April 1998 one ordinary £1 share was issued at par value. On 26 June 1998 1,199 ordinary £1 shares were issued at par value. On 30 September 1998 8,800 ordinary £1 shares were issued for consideration of £598,800.

18. Share premium

	£
At 27 April 1998	–
Premium on issue of shares (see note 17)	590,000
Issue costs	<u>(28,870)</u>
At 30 September 1999 and at 30 September 2000 and at 30 September 2001	<u>561,130</u>

19. Profit and loss account

	£
At 27 April 1998	–
Retained profit for the period	<u>67,751</u>
At 30 September 1999	67,751
Retained profit for the year	<u>80,851</u>
At 30 September 2000	148,602
Retained profit for the year	<u>66,442</u>
As at 30 September 2001	<u>215,044</u>

20. Reconciliation of movements in shareholders' funds

	2001 £	2000 £	1999 £
Profit for the financial period	66,442	80,851	67,751
Shares issued during the period	–	–	600,000
Issue costs	–	–	<u>(28,870)</u>
Net addition to shareholders' funds	<u>66,442</u>	<u>80,851</u>	<u>638,881</u>
Opening shareholders' funds	719,732	638,881	–
Closing shareholders' funds	<u>786,174</u>	<u>719,732</u>	<u>638,881</u>

21. Notes to the cashflow statement

	2001 £	2000 £	1999 £
(a) Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	181,233	178,634	119,095
Depreciation	79,059	49,093	12,329
Amortisation	52,273	46,626	27,862
(Increase) in debtors	(212,418)	(252,944)	(429,515)
Increase in creditors	266,235	124,803	343,685
Loss on disposal	809	–	–
Net cash inflow from operating activities	<u>367,191</u>	<u>146,212</u>	<u>73,456</u>

	2001 £	2000 £	1999 £
(b) Reconciliation of net cashflow to movement in net debt			
(Decrease)/increase in cash in the year	(11,159)	(31,562)	44,632
Cash outflow to repay debt	84,120	84,120	–
Cash inflow from new loans	(450,000)	(297,787)	(263,256)
Cash outflow to repay finance leases	74,910	41,034	4,635
Change in net debt from cashflows	<u>(302,129)</u>	<u>(204,195)</u>	<u>(213,989)</u>
New finance leases	(54,674)	(134,868)	(44,838)
Increase in net debt	(356,803)	(339,063)	(258,827)
Net debt at beginning of period	<u>(597,890)</u>	<u>(258,827)</u>	<u>–</u>
Net debt at end of period	<u><u>(954,693)</u></u>	<u><u>(597,890)</u></u>	<u><u>(258,827)</u></u>

(c) Analysis of net debt

	<i>At</i> <i>27 April</i> <i>1998</i> £	<i>Cash flow</i> £	<i>Other</i> <i>non</i> <i>cashflows</i> £	<i>At 30</i> <i>September</i> <i>1999</i> £
Cash at bank	–	44,632	–	44,632
	–	44,632	–	44,632
Debt due within 1 year	–	(84,120)	–	(84,120)
Debt due after 1 year	–	(179,136)	–	(179,136)
Finance leases	–	4,635	(44,838)	(40,203)
Total net debt	<u>–</u>	<u>(213,989)</u>	<u>(44,838)</u>	<u>(258,827)</u>

	<i>At 1</i> <i>October</i> <i>1999</i> £	<i>Cash flows</i> £	<i>Other</i> <i>non</i> <i>cashflows</i> £	<i>At 30</i> <i>September</i> <i>2000</i> £
Cash at bank	44,632	(31,562)	–	13,070
	44,632	(31,562)	–	13,070
Debt due within 1 year	(84,120)	84,120	(84,120)	(84,120)
Debt due after 1 year	(179,136)	(297,787)	84,120	(392,803)
Finance leases	(40,203)	41,034	(134,868)	(134,037)
Total net debt	<u>(258,827)</u>	<u>(204,195)</u>	<u>(134,868)</u>	<u>(597,890)</u>

	<i>At 1</i> <i>October</i> <i>2000</i> £	<i>Cashflows</i> £	<i>Other</i> <i>non</i> <i>cashflows</i> £	<i>At 30</i> <i>September</i> <i>2001</i> £
Cash at bank	13,070	(4,646)	–	8,424
Overdraft	–	(6,513)	–	(6,513)
	13,070	(11,159)	–	1,911
Debt due within 1 year	(84,120)	84,120	(196,620)	(196,620)
Debt due after 1 year	(392,803)	(450,000)	196,620	(646,183)
Finance leases	(134,037)	74,910	(54,674)	(113,801)
Total net debt	<u>(597,890)</u>	<u>(302,129)</u>	<u>(54,674)</u>	<u>(954,693)</u>

22. Operating lease commitments

At 30 September 2001, the Company had annual commitments under operating leases as follows:

	2001		2000		1999	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£	£	£	£	£	£
Leases which expire						
Within 1 year	90,130	2,116	–	2,220	–	–
2 – 5 years	35,475	403	33,000	4,633	–	8,847

23. Related party transactions

During the year secretarial and administration services were provided by David Marks & Co Limited at a cost of £9,000 (2000: £11,250, 1999: £12,000). The balance owing at the year end was £nil (2000: £6,250, 1999: £9,000). David Marks, a director of the Company, is a director of David Marks & Co Limited.

During the year consultancy services were provided by D Sullivan, a director of the Company, at a cost of £5,000 (2000: £5,000, 1999: £nil). The balance owing at the year end was £nil (2000: £nil, 1999: £nil).

During the year consultancy services were provided by B Myers, a director of the Company, at a cost of £5,000 (2000: £5,000, 1999: £nil). The balance owing at the year end was nil (2000: £nil, 1999: £nil).

During the year training and financial support services were provided to Sectoralarm Limited at a cost of £127,983 (2000: £34,857, 1999: £nil). At the year end the Company was owed £33,968 (2000: £46,465, 1999: £nil) by Sectoralarm Limited, a company of which David Marks, Bernard Myers and David Sullivan are also directors.

All transactions were on an arm's length basis.

24. Financial instruments

The Company finances its operations through a combination of retained profits and borrowings. There are no other financial instruments.

The Company only operates within the United Kingdom and no foreign currency risk arises.

25. Post balance sheet events

At an extraordinary general meeting of the Company held on 4 March 2002, the following resolutions, *inter alia*, were passed:

- each ordinary share of £1 each was sub-divided into 200 ordinary shares of 0.5p each;
- the authorised share capital was increased to £2,000,000 by the creation of 200,000,000 new ordinary shares of 0.5p each;
- a bonus issue of 60,500,000 new ordinary shares of 0.5p each was approved in favour of existing shareholders on the basis of 30.25 new ordinary shares of 0.5p each for every such ordinary share held; and
- a bonus issue of 25,000,000 new ordinary shares of 0.5p each was approved in favour of existing shareholders, conditional on the audited net profit before tax of the Company for the year ending 30 September 2002 being not less than £500,000.

PART III

ADDITIONAL INFORMATION

1. Incorporation and Status of the Company

- 1.1 The Company was incorporated and registered in England and Wales on 27 April 1998 with the name Shelfco (No. 1470) Limited as a private company limited by shares under the Act with registered number 3553625. The name of the company was changed to Sectorguard Limited on 29 June 1998. The Company re-registered as a public limited company under the name SectorGuard plc on 5 March 2002.
- 1.2 The Company operates under the Act and the liability of the members of the Company is limited.

2. Share capital of the Company

- 2.1 The authorised and issued share capital of the Company as at the date of this document and following the Placing and Admission (assuming no Warrants have been exercised) are as follows:

	<i>Existing</i>		<i>Following Placing and Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Nominal Value £</i>	<i>Number of Ordinary Shares</i>	<i>Nominal Value £</i>
Authorised share capital	400,000,000	2,000,000	400,000,000	2,000,000
Issued and fully paid up share capital	62,500,000	312,500	91,500,000	457,500

- 2.2 The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 shares of £1 each of which one share was issued nil paid to the subscriber to the Memorandum of Association. Since incorporation, the following alterations have been made to the Company's authorised and issued share capital:

- 2.2.1 on 26 June 1998 the one subscriber share was transferred to Dr Oswald Morton and Glyn Taylor as trustees of the Morton 1998 Grandchildren Settlement and paid up in full in cash at par;
- 2.2.2 on 19 June 1998 the authorised share capital of the Company was increased from £1,000 to £10,000 by the creation of 9,000 shares of £1.00 each;
- 2.2.3 on 26 June 1998 1199 ordinary shares of £1.00 each were allotted for cash at par fully paid;
- 2.2.4 on 30 September 1998 written resolutions were passed to:
- (a) increase the authorised share capital of the Company from £10,000 to £1,000,000 by the creation of 290,000 'Marks Shares' of £1.00 each, 150,000 'Myers Shares' of £1.00 each, 150,000 'Sullivan Shares' of £1.00 each and 400,000 ordinary shares of £1.00 each (the Marks Shares, the Sullivan Shares and the Myers Shares are/were separate classes of shares but save as mentioned in the articles of association adopted on 30 September 1998 rank *pari passu* in all respects); and
- (b) to convert and re-designate each of the 1,200 issued ordinary shares of £1.00 each in the capital of the Company into 'Marks Shares' of £1.00 each;
- 2.2.5 on 30 September 1998 8,800 ordinary shares of £1.00 each were allotted for cash fully paid;
- 2.2.6 at an extraordinary general meeting of the Company held on 4 March 2002 the following resolutions were passed:
- 2.2.6.1 to subdivide each of the existing issued and unissued ordinary shares of £1.00 each (including those resulting from the reclassification referred to in paragraph 2.2.6.6 below) into 200 Ordinary Shares;

- 2.2.6.2 to increase the authorised share capital of the Company from £1,000,000 to £2,000,000 by the creation of 200,000,000 new Ordinary Shares;
- 2.2.6.3 to capitalise the sum of £302,500 standing to the credit of the Company's share premium account by paying up in full 60,500,000 Ordinary Shares to be issued *pro rata* to existing shareholders;
- 2.2.6.4 subject to the pre-tax profits for the year ending 30 September 2002 (as shown by the audited accounts of the Company) being at least £500,000, to capitalise the sum of £125,000 standing to the credit of the Company's share premium account by paying up in full 25,000,000 Ordinary Shares to be issued *pro rata* to existing Shareholders.
- 2.2.6.5 to authorise the Directors to allot relevant securities (as defined in section 80 of the Act) in the Company up to an aggregate nominal amount of £1,990,000, such authority to expire 15 months after the date of the resolution or at the next annual general meeting of the Company, whichever is the earlier;
- 2.2.6.6 to re-designate the 'Marks Shares', the 'Sullivan Shares' and the 'Myers Shares' as ordinary shares of £1 each;
- 2.2.6.7 to re-register the Company as a public limited company;
- 2.2.6.8 to amend the memorandum of association by the insertion of a new clause 2 stating that the Company is to be a public company and to delete the existing clause 5 relating to authorised share capital and to insert a new clause 6;
- 2.2.6.9 to adopt new articles of association to the exclusion of the existing articles of association of the company; and
- 2.2.6.10 to disapply the statutory pre-emption rights pursuant to Section 89(1) of the Act provided that the power shall be limited to:
- (a) the allotment of up to 29,000,000 new Ordinary Shares as contemplated by the Placing Agreement;
 - (b) the allotment of up to 5,800,000 new Ordinary Shares pursuant to the exercise of Warrants created by the warrant instrument;
 - (c) the allotment of new Ordinary Shares pursuant to the exercise of options granted under the Share Option Schemes;
 - (d) the allotment of equity securities in connection with a rights issue or other *pro rata* offer in favour of holders of Ordinary Shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective number of equity securities held by them subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body; and
 - (e) the allotment (otherwise than pursuant to sub-paragraphs (a) to (d) above) of equity securities up to an aggregate nominal amount of £500,000.

and shall expire on whichever is the earlier of the next annual general meeting of the Company or the expiry of the authority referred to in paragraph 2.2.6.5 above, except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

- 2.3 The Ordinary Shares in issue following Admission will, save for the right to be issued new Ordinary Shares pursuant to the Bonus Issue, 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.
- 2.4 The provisions of section 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 743 of the Act) apply to the authorised but unissued share capital of the Company to the extent not disapplied as described in paragraph 2.2 above.
- 2.5 Save in connection with the Placing, the issue of the Warrants, the Bonus Issue and as described in Part I in relation to the Share Option Scheme, no share or loan capital of the Company is proposed to be issued or is under option or agreed, conditionally or unconditionally, to be put under option.
- 2.6 No shares of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in place whereby future dividends are waived or agreed to be waived.
- 2.7 Save as disclosed in this document, the Company does not have in issue any securities not representing share capital and there are no outstanding convertible securities issued by the Company.

3. Memorandum and Articles of Association

In this paragraph 3 of Part III, "Statutes" means the Act and every other statute or statutory instrument, rule, order or regulation from time to time in force concerning companies so far as they apply to the Company.

3.1 Memorandum of Association

The objects of the Company are set out in clause 3 of the Company's memorandum of association and its principal objects are, among others, to carry on all or any of the businesses of general merchants and traders, manufacturers, retailers, wholesalers, buyers, sellers, distributors and shippers of, and dealers in all products, goods, wares, merchandise and produce of every description and to purchase or otherwise acquire and take over any businesses or undertakings.

3.2 Articles of Association

The articles of association of the Company ("Articles") contain provisions, among others, to the following effect:

3.2.1 Voting Rights

Subject to any special terms as to voting upon which any share may be issued, or may be held, and subject to the provisions of the Articles, on a show of hands every member of the Company ("Member") present in person and entitled to vote shall have one vote and on a poll every Member present in person or by proxy and entitled to vote shall have one vote for every share of which he is the holder.

No Member is entitled to be present or to be counted in the quorum or vote, either in person or by proxy, at any general meeting or at any separate meeting of the holders of a class of shares or on a poll or to exercise other rights conferred by membership in relation to the meeting or poll, unless all calls or other moneys due and payable in respect of the share have been paid. Where a notice is served by the Company under section 212 of the Act (a “section 212 notice”) on a Member, or another person appearing to be interested in shares held by that Member, and the Member or other person has failed in relation to any shares (the “default shares” which expression includes any shares issued after the date of the section 212 notice in right of those shares) to give the Company the information required within 14 days from the date of service of the section 212 notice then, unless the Board otherwise decides, the Member is not entitled in respect of the default shares to be present or to vote (either in person or by proxy) at a general meeting or at a separate meeting of the holders of a class of shares or on a poll or to exercise other rights conferred by membership in relation to the meeting or poll.

3.2.2 Dividends

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is declared and paid. Dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. If any share is issued on terms that it shall rank for dividend as from a particular date then it shall rank for dividend as from that date. Any dividend which has remained unclaimed for a period of 12 years from the date it became due for payment is forfeited and ceases to remain owing by the Company.

Where a section 212 notice is served on a Member, or another person appearing to be interested in shares held by that Member, and the Member or other person has failed in relation to any default shares to give the Company the information required within 14 days of the service of the section 212 notice, and the default shares represent at least 0.25 per cent in nominal value of the issued shares of their class then, unless the Board otherwise decides, any dividend (or any part of a dividend) or other amount payable in respect of the default shares shall be withheld by the Company, which has no obligation to pay interest on it and the Member is not entitled to elect to receive shares instead of a dividend.

3.2.3 Distribution of Assets on a Winding Up

If the Company shall be wound up (whether the liquidation is voluntary, under supervision or by the Court) the liquidator may, with the authority of an extraordinary resolution and any sanction required by law, divide among the Members in kind the whole or any part of the assets of the Company and whether or not the assets consist of property of one kind or of different kinds and may for this purpose set such value as he deems fair on any class or classes of property and may determine on the basis of that valuation and in accordance with the then existing rights of Members how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the same authority, vest any part of the assets in the trustees upon such trust for the benefit of Members as the liquidator may think fit but so that no member shall be compelled to accept any asset in respect of which there is a liability or potential liability.

3.2.4 Purchase of Own Shares

Subject to the Statutes, the Company may purchase its own shares (including any redeemable shares) or enter into such agreement (contingent or otherwise) in relation to the purchase of its own shares on such terms and in such manner as may be permitted by the Statutes.

3.2.5 Variation of Class Rights

Subject to the Statutes, the rights attached to any class of shares may be modified, varied or abrogated (a) in such manner (if any) as may be provided by those rights or (b) in the absence of provision, either with the consent of the holders of at least three fourths in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of that class and then only subject to the provisions of section 127 of the Act. The rights attached to any class of share are not, unless otherwise expressly provided by the Articles or in the rights attaching to shares of that class, deemed to be modified, varied or abrogated by the creation or issue of further shares ranking equally with every other share of that class or subsequent to them or by the purchase or redemption by the Company of its own shares in accordance with the Statutes and the Articles.

3.2.6 Transfer of Shares

3.2.6.1 Any Member may transfer all or any of his certificated shares by instrument of transfer in any usual form or in such other form as the Board may approve and the instrument must be executed by or on behalf of the transferor and (except in the case of a share which is fully paid up) by or on behalf of the transferee but need not be under seal. The transferor is deemed to remain the holder of the share until the name of the transferee is entered in the register of Members in respect of it.

3.2.6.2 Subject to paragraph 3.2.6.4, the Board may refuse to register a transfer of a certificated share unless the instrument of transfer is (a) in respect of only one class of shares, (b) in favour of not more than four joint transferees, (c) duly stamped (if required), and (d) delivered for registration to the registered office of the Company from time to time or such other place as the Board may decide accompanied by the certificate for the shares to be transferred (save in the case of a transfer by a recognised person to whom no certificate was issued) and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so. The Board may impose restrictions on the transfer of a certificated share which is not fully paid up provided that the restrictions are not such as to prevent dealings in the shares from taking place on an open and proper basis.

3.2.6.3 Subject to the provisions of the Statutes, the Company may issue shares, and other securities, which do not have certificates, may allow existing shares, and other securities, to be held without certificates and may allow any shares, or other securities, to be transferred without using a transfer form.

3.2.6.4 Where a notice is served by the Company under section 212 of the Act ("section 212 notice") on a Member, or another person whom the Company knows or has reasonable cause to believe to be interested in shares held by that Member, and the Member or other person has failed in relation to any default shares to give the Company the information required within 14 days from the date of service of the section 212 notice and such shares represent at least 0.25 per cent in nominal value of the issued shares of their class, then, unless the Board otherwise decides, no transfer of any of the default shares shall be registered unless the transfer is an "excepted transfer" (as defined in the Articles) or the Member is not himself in default in supplying the information required and the Member proves to the satisfaction of the Board that no person in default in supplying the information required is interested in any of the shares the subject of the transfer or unless the registration of the transfer is required by the Uncertificated Securities Regulations 1995.

Other than as set out above, the Articles contain no restrictions as to the free transferability of fully paid shares.

3.2.7 Alterations to Capital

The Company may by ordinary resolution (a) increase its share capital by a sum to be divided into shares of an amount prescribed by the resolution; (b) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares; (c) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and (d) subject to the Statutes, sub-divide all or any of its shares into shares of a smaller amount and may by the resolution determine that the shares resulting from such sub-division may have any preferred or other special rights or be subject to any restrictions, as compared with the others.

Subject to the Statutes and to the rights attached to existing shares, the Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner.

3.2.8 Borrowing Powers

The Board may exercise all the powers of the Company to borrow money. The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (together the “Group”) so as to secure (as regards subsidiary undertakings so far as by such exercise they can secure) that the aggregate principal amount (including any premium payable on final repayment) remaining undischarged of all moneys borrowed by the Group does not at any time without the previous sanction of an ordinary resolution exceed a sum equal to two times the aggregate of (a) the amount paid up on the allotted or issued share capital of the Company; and (b) the amount standing to the credit of the consolidated capital and revenue reserves of the Group (including any share premium account and capital redemption reserve) plus or minus the credit or debit balance, as the case may be, of the consolidated profit and loss account all as shown in the then latest audited consolidated balance sheet of the Group, adjusted as specified in the Articles.

4. Directors’ and other Interests

4.1 Immediately following Admission the interests of the Directors and the persons connected (within the meaning of section 346 of the Act) with them (all of which are beneficial save where otherwise stated) in the ordinary share capital of the Company which are required to be shown in the register maintained under section 325 of the Act or which are required to be notified by a director (or, in the case of such a connected person, would be required to be notified by that person had he been a director) to the Company pursuant to sections 324 or 328 of the Act will be as follows:

	<i>Ordinary Shares</i>	<i>Percentage of the issued share capital on Admission</i>	<i>Number of Warrants</i>	<i>Number of Options</i>
P Gorty	166,667	0.16	33,333	166,667
D Marks	26,250,000	28.69	5,250,000	833,333
G J Lyons	250,000	0.27	50,000	166,667

Note: Of the Ordinary Shares and Warrants in which D Marks is interested, 7,500,000 Ordinary Shares and 1,000,000 Warrants are registered in the name of Morton 1998 Trust, of which D Marks’ minor children are beneficiaries.

4.2 Save as disclosed in paragraph 4.1 above and 4.5 below, the Directors are not aware of any interest (within the meaning of Part VI of the Act) in the Company’s issued share capital which, immediately after Admission, would amount to 3 per cent. or more of the Company’s issued share capital.

4.3 Save as set out in sub paragraph 4.1 above none of the Directors has any interest in the share capital of the Company.

- 4.4 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors.
- 4.5 At the date of this document and immediately following the Placing, so far as the Directors are aware, the only persons other than the Directors who are, directly or indirectly, interested in 3 per cent. or more of the issued share capital of the Company are as follows:

<i>Shareholder</i>	<i>At the date of this document</i>		<i>On Admission</i>	
	<i>No. of ordinary shares</i>	<i>Percentage of issued share capital</i>	<i>No. of ordinary shares</i>	<i>Percentage of issued share capital</i>
B Myers	9,375,000	15.00	9,375,000	10.25
D Sullivan London & Canberra Investment Trust	9,375,000	15.00	9,375,000	10.25
Baltic Securities plc	5,000,000	8.0	5,000,000	5.46
	6,250,000	10.00	6,250,000	6.83

- 4.6 As at 7 March 2002 (being the latest practicable date prior to the publication of this document) save as disclosed in this paragraph 4, the Directors are not aware of any person or persons who, indirectly or directly, jointly, or severally, at the date of this document or following the Placing exercise or could exercise control over the Company.

5. Additional Information on the Board

- 5.1 In addition to directorships of the Company, the Directors hold or have held the following directorships or are or have been partners in the following partnerships within the five years prior to the date of this document:

<i>Name</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
P Gorty	FDG Associates Limited OCS Access Limited	AMF International Limited Eagle Place Notices Limited Bessa LSE plc High Holborn Limited IML Group plc Nabarro Nathanson OCS Nominees Limited Seymour Pierce Group plc Stat-Plus Group Limited
D Marks	Crystal Alarms and Electrical Installations Limited David Marks & Co Limited EMA Hoseworth Fire Security Limited Sectoralarm Limited	168 Security Limited Elgee (Coats & Suits) Limited Shelfco (No.1405)Limited
G J Lyons	The Cheshire Connection Limited Dixons of Halifax Limited D.O.H. Plastics Limited DPO plc FJ & GL Holdings Limited Kellawn Limited KWX Holdings Limited Lissadell Leisurewear Limited The Original Stores Company Limited Vanguard Wire Products Limited Wire 2 Limited	None

- 5.2 G J Lyons is a director of Dixons of Halifax Limited in respect of which an administration order was made on 7 November 2001. The assets of the company were sold by the joint administrator on 11 January 2002 and the company is currently being prepared for liquidation.

- 5.3 G J Lyons was a shadow director of Riverside Workers Limited which was dissolved on 4 December 1998 with an estimated deficiency as regards creditors of approximately £310,000.
- 5.4 P Gorty was a director of High Holborn Limited, in respect of which an administration order was made on 30 May 2001 and which went into insolvent liquidation on 29 January 2002.
- 5.5 Save as disclosed in paragraphs 5.2 to 5.4 above, none of the Directors has:
- 5.5.1 any unspent convictions in relation to indictable offences;
 - 5.5.2 had any bankruptcy order made against him or entered into any voluntary arrangements;
 - 5.5.3 been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a 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;
 - 5.5.4 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;
 - 5.5.5 been the owner of any assets or a partner in any partnership 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;
 - 5.5.6 been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
 - 5.5.7 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.

6. Directors' service agreements

- 6.1 David Marks entered into a service agreement with the Company on 7 March 2002, which provides for him to act as Managing Director for a minimum period of 1 year (subject to the Company's right to give summary notice in a number of situations including gross misconduct, serious breach, disqualification as a director, bankruptcy, ill health for more than 183 days per annum and criminal offences punishable by a custodial sentence), terminable by the Company giving to David Marks not less than 12 months notice and by David Marks giving to the Company not less than 6 months notice after expiry of the initial term of 1 year, at a basic salary of £75,000 per annum together with additional pension, bonus, medical health, death in service and car benefits. His salary and bonus are reviewed in March of each year.

The minimum amount by which the salary and the rate of bonus that David Marks receives will be increased by each year will be the higher of 5 per cent. and a percentage equal to amount by which the last figure of the Retail Price Index before the review date exceeds the last figure of the Retail Price Index immediately after the review date.

David Marks' employment with the Company commenced on 1 October 1998. David Marks is restricted both during his period of employment and for 6 months after termination of employment from competing with the business and for 12 months after his employment with the Company has ended not to solicit customers or employees.

- 6.2 Peter Gorty was appointed as a non executive chairman of the Company by letter agreement dated 1 March 2002. He is entitled to an annual fee of £15,000 and the appointment shall continue until 1 March 2003 and thereafter unless and until terminated by either party giving the other not less than three months' written notice.
- 6.3 Gideon Lyons was appointed as a non executive director of the company by letter agreement dated 1 March 2002. He is entitled to an annual fee of £15,000 and the appointment shall continue until 1 March 2003 and thereafter unless and until terminated by either party giving the other not less than three months' written notice.

- 6.4 Save as disclosed in paragraphs 6.1 to 6.3 above, there are no service contracts, existing or proposed, between any Director and the Company.
- 6.5 The aggregate of the remuneration and benefits in kind paid to the directors by the Company in respect of the period ended 30 September 2001 was £73,595. 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 30 September 2002 will be approximately £105,000. None of the Directors has agreed to waive his entitlement to future emoluments nor was there any such waiver in respect of the period ended 30 September 2001.

7. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company within the two years immediately preceding the date of this document and are, or may be, material:

- 7.1 An agreement (the “Placing Agreement”) dated 8 March 2002 between the Company (1), the Directors (2), Seymour Pierce (3) and Seymour Pierce Ellis (4) pursuant to which, conditional upon, *inter alia*, Admission, Seymour Pierce Ellis has agreed to use reasonable endeavours to procure places for the Placing Shares proposed to be issued by the Company at the Placing Price, failing which Seymour Pierce Ellis has agreed to subscribe for such shares itself at the Placing Price.

The Placing Agreement contains indemnities and warranties from the Company and the Directors in favour of Seymour Pierce and Seymour Pierce Ellis. Seymour Pierce and/or Seymour Pierce Ellis may terminate the Placing Agreement in certain circumstances prior to Admission including circumstances where any warranties are not found to be true or correct in any material respect. The liability of the Directors for breach of warranty is limited. Under the Placing Agreement the Company has agreed to pay to Seymour Pierce Ellis a fee of £20,000 and commission of 3 per cent. of the value of the Placing Shares at the Placing Price, and to Seymour Pierce a fee of £60,000 together with all costs and expenses and VAT thereon, where appropriate.

- 7.2 By various lock up agreements dated 7 March 2002 between each existing Shareholder and Peter Gorty and Gideon Lyons (1), Seymour Pierce and Seymour Pierce Ellis (2) and the Company (3) (“the Lock Up Agreements”) each existing Shareholder has undertaken, conditional on Admission, that he will not (and will procure, insofar as he is able, that his connected persons will not) dispose of Ordinary Shares or rights over shares (which for the avoidance of doubt includes the Warrants) (“Rights Over Shares”) for a period of 12 months from Admission in the case of the Directors, B Myers and D Sullivan and 6 months in the case of the other existing Shareholders, save in certain limited circumstances, and then will only dispose of any Ordinary Shares or Rights Over Shares following consultation with the Company’s nominated adviser and then only through the Company’s broker save in respect of Baltic Securities plc for whom this restriction applies for a further six months only. The Lock Up Agreements contain warranties from the Shareholders in favour of Seymour Pierce and Seymour Pierce Ellis.
- 7.3 A nominated adviser agreement dated 7 March 2002 between the Company (1) and Seymour Pierce (2) pursuant to which the Company has appointed Seymour Pierce to act as Nominated Adviser to the Company for the purposes of the AIM Rules. The Company has agreed to pay Seymour Pierce a fee of £20,000 per annum for its services as Nominated Adviser under the agreement, together with all reasonable expenses and VAT. The agreement contains certain undertakings given by the Company and the Directors and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement continues for a fixed period of one year from the date of Admission and thereafter is subject to termination on the giving of three months’ notice by either party.

7.4 A broker agreement dated 7 March 2002 between the Company (1) and Seymour Pierce Ellis (2) pursuant to which the Company has appointed Seymour Pierce Ellis to act as Broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay Seymour Pierce Ellis a fee of £10,000 per annum for its services as Broker under the agreement together with all reasonable expenses and VAT. The agreement contains certain undertakings given by the Company and the Directors and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement continues for a fixed period of one year from the date of Admission and thereafter is subject to termination on the giving of three months' notice by either party.

7.5 The Warrant instrument referred to in paragraph 8 of this Part III.

7.6 By an agreement dated 13 July 2001 between the Company and Abbot Security Services (1977) Limited ("the Abbot Agreement"), the Company acquired the manned guard services business and assets of Abbot Security Services (1977) Limited ("Abbot Security").

The consideration for the acquisition was a maximum sum of £500,000. The Company also agreed to pay further consideration based on any new security contract entered into by the Company with any new or existing client of the business which has been solely and directly introduced to the Company by Abbot Security prior to the Transfer Date (being 7.00 am on 1 August 2001) and further sums based on any new security guarding contract entered into by the Company with any new or existing client of the business which contract has been solely and directly introduced to the Company by Abbot Security in the period of twelve months from the Transfer Date. The Directors consider the possibility of payment of any further consideration under this agreement to be remote.

Abbot Security gave warranties to the Company including warranties as to capacity, title, assets, records, business contracts, equipment, employees, insolvency, compliance, tax and health and safety.

Abbot Security also undertook to the Company that, amongst other things, it would not for a period of three years from the date of the Abbot Agreement establish or carry on a competing business, solicit, canvass or entice away from the business customers during the twelve months preceding the date of the Abbot Agreement or offer such clients or customers competing goods or services, solicit, canvass or entice away any of the employees or do anything that might prejudice the goodwill of the business.

8. Warrants

8.1 By a resolution of the board passed on 7 March 2002 the Company adopted a warrant instrument dated 7 March 2002, pursuant to which the Company will issue 18,300,000 Warrants, conditional on Admission. One Warrant will be issued to each participant in the Placing for every 5 Ordinary Shares subscribed under the Placing and for every 5 Ordinary Shares held by each existing Shareholder at the date of Admission (ignoring fractions).

8.2 The principal terms of the warrant instrument are as follows:

8.2.1 Each Warrant will entitle the holder to subscribe for five new Ordinary Shares at the subscription price of 3p per Ordinary Share and may be exercised at any time up to and including the third anniversary of Admission.

8.2.2 Ordinary Shares issued on the exercise of the Warrants will not rank for any dividend or other distribution declared, made or paid in respect of any financial year earlier than that current at the date of exercise but, subject to this, will rank in full for all dividends and other distributions declared or made in the current financial year. In all other respects the Ordinary Shares issued on the exercise of the Warrants shall rank *pari passu* with the Ordinary Shares then in issue.

8.2.3 The warrant instrument contains provisions for adjustment to the number of shares and subscriptions upon capitalisation of reserves and for appropriate adjustments to the subscription price on a rights issue or on a subdivision or consolidation of share capital. Any offer or invitation by the Company to the holders of its ordinary share capital shall apply to the holders of the Warrants.

- 8.2.4 So long as any of the subscription rights under the Warrants remain exercisable the Company will not without such sanction as is required for a modification of the rights of the Warrant holders:
- (a) issue any securities by way of capitalisation of reserves, share premium account or undistributed profits other than Ordinary Shares quoted as fully paid up;
 - (b) issue any equity share capital which as regard rights to voting, dividends or capital have more favourable rights than those attached to the Ordinary Shares in issue at the date of issue of the Warrants;
 - (c) modify the rights attached to the Ordinary Shares or modify the rights attached to any class of shares other than the Ordinary shares to that it has rights more favourable than those attached to the Ordinary Shares;
 - (d) issue any Ordinary Shares credited as fully paid by way of a capitalisation of profits or reserved or issue shares at a discount to nominal value; and
 - (e) reduce its share capital (except as authorised by the Act).
- 8.2.5 Warrants, which will be registered, will be transferable in respect of entitlements to subscribe for multiples of Ordinary Shares, by instrument of transfer in the usual common form or in any form approved by the Directors including in uncertificated form.
- 8.2.6 The rights of the holders of the Warrants may be altered or abrogated with the sanction of an extraordinary resolution, which requires the consent of three quarters of the Warrants in issue.

9. Share Option Schemes

The following employee share schemes have either been implemented or are in the process of being implemented by the Directors:

9.1 The 2002 Approved Company Share Option Plan (“the Approved Plan”)

The Approved Plan, which is currently being implemented, enables options to be granted to employees and full-time directors on a discretionary basis over Ordinary Shares.

The Approved Plan will be approved by the Inland Revenue and will therefore offer both participants and the Company favourable tax treatment on the exercise of options. Options must generally be held for at least three years before they can be exercised and may be made subject to the satisfaction of objective performance conditions.

The Approved Plan will be advantageous for income tax and National Insurance contributions (“NICs”) but is subject to a number of statutory limitations. For example, each participating employee or director is limited to a maximum of £30,000 worth of shares under option at any one time by reference to the value at grant. In addition, there is a material interest test to the effect that no employee or director may obtain and exercise options if he or she owns, or in the preceding 12 months has owned, more than 10 per cent. of the issued share capital, and any participating director must work at least 25 hours per week for the Company to be eligible.

9.2 2002 Enterprise Management Incentive Scheme (“the EMI Scheme”)

Due to the various constraints of the Approved Plan, the Directors are implementing the EMI Scheme to run in tandem with and complement the Approved Plan. It will allow for further tax-favoured options to be granted where it is not possible to do so under the Approved Plan. The EMI Scheme has an individual limit of £100,000 worth of shares under option (less any shares granted under the Approved Plan) and the material interest test is a much more favourable 30 per cent.

The EMI Scheme also offers considerable tax advantages with regard to income tax and NICs; in addition, the shares granted under option will potentially benefit from Business Asset Taper Relief from the date the option is granted.

9.3 The 2002 Unapproved Company Share Option Plan (“the Unapproved Plan”)

For those individuals who are not eligible to participate in either the Approved Plan or the EMI Scheme, options will be granted under the Unapproved Plan, which has been adopted by the Directors.

The Unapproved Scheme offers flexibility, however, it is not favourable from a taxation point of view. Exercise of the options will give rise to PAYE income tax and NICs for both employee and employer. Where the Company is liable for secondary Class 1 NICs, in order to reduce the potentially significant effect on the Company’s performance, it is possible to pass on this charge to the individual by agreement or election and this will be determined on a case by case basis.

All of the above Share Option Schemes will be administered by the Directors, who will decide to whom options shall be granted, under which scheme and to what extent. At present it is intended that no more than 10 per cent. of the Company’s issued share capital will be allocated for use under the Share Option Schemes.

10. Litigation

The Company is not involved in any legal or arbitration proceedings which may have or have had during the twelve months preceding the date of this document a significant effect on the Company’s financial position and, so far as the Directors are aware, there are no such proceedings pending or threatened against the Company.

11. Working capital

The Directors are of the opinion that, having made due and careful enquiry, following Admission and taking account of the net proceeds of the Placing and existing bank balances and facilities available to the Company, the Company will have sufficient working capital for its present requirements, that is for at least twelve months from Admission.

12. United Kingdom Taxation

12.1 *United Kingdom taxation – general*

12.1.1 The statements set out below are general in nature and are intended only as a general guide to certain aspects of current UK law and practice and apply only to certain categories of persons. The summary does not purport to be a complete analysis of all the potential tax consequences of acquiring, holding and disposing of Ordinary Shares and only relates to the position of shareholders who are the beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as investments; in particular it does not address the position of certain classes of shareholders, such as dealers in securities.

12.1.2 Prospective purchasers of Ordinary Shares who are in any doubt about their tax position, and in particular those who are subject to taxation in any jurisdiction other than the UK, are strongly recommended to consult their own tax advisers concerning the tax consequences of the acquisition, ownership and disposal of Ordinary Shares.

12.1.3 This summary is based upon UK law and practice as of the date of this document. UK law and practice may be subject to change, possibly with retroactive effect.

12.2 *Dividends*

12.2.1 Advance corporation tax was abolished with effect from 6 April 1999. Therefore, the Company no longer has to account to the Inland Revenue for advance corporation tax when it pays a dividend or makes other forms of distribution to its shareholders. The foreign income dividend regime was also abolished from the same date.

12.2.2 In respect of dividends on Ordinary Shares paid on or after 6 April 1999, individual shareholders who are resident in the UK for tax purposes are entitled to a tax credit at the rate of one ninth of the cash dividend or ten per cent. of the

aggregate of the cash dividend and the associated tax credit. Dividend income will be treated as the top slice of an individual's income. Shareholders receiving dividends will be liable to income tax (if at all) on the aggregate of the dividend and the associated tax credit at, in the case of starting and basic rate taxpayers, the Schedule F ordinary rate (10 per cent. in 2001/2002) or, in the case of higher rate taxpayers, the Schedule F upper rate (32.5 per cent. in 2001/2002). The tax credit will be offset against their total income tax liability. Therefore, taxpayers who, after taking into account dividend income, are liable to UK income tax at only the starting or basic rate will have no further liability to income tax. Higher rate taxpayers will, after taking into account the tax credit, have an additional tax liability of 25 per cent. of the cash dividend.

- 12.2.3 Subject to certain transitional relief for charities, PEPs and ISAs, however, UK shareholders who were entitled to repayment of tax credits in respect of dividends paid before 6 April 1999 are generally no longer entitled to claim such a repayment.
 - 12.2.4 As with dividends paid prior to 6 April 1999, UK tax resident corporate shareholders will not normally be liable to UK corporation tax or income tax in respect of any dividend received from the Company on or after 6 April 1999. In certain circumstances, however, such income could be treated as taxable, for example, where the company is a financial trader.
 - 12.2.5 Non-UK resident shareholders and shareholders subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser concerning their liabilities to tax on dividends received and the effect of the above changes for them.
- 12.3 *Taxation of chargeable gains*
- 12.3.1 Subject to reliefs that may be available under EIS and VCT legislation, any disposal of Ordinary Shares by a shareholder resident or ordinarily resident for tax purposes in the UK and has used, held or acquired the Ordinary Shares for the purposes of such trade, profession or vocation or such branch or agency may, depending on the shareholder's circumstances, and subject to any available exemptions, allowances or reliefs, give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (or for companies, corporation tax on chargeable gains). Special rules apply to disposals by individuals at a time when they are temporarily not resident or ordinarily resident in the UK.
- 12.4 *UK Stamp duty and stamp duty reserve tax*
- 12.4.1 Other than in respect of depositary receipts and clearance services (to which special rules apply):
 - (i) The allotment and issue of Ordinary Shares by the Company pursuant to the Placing will not normally give rise to a charge to stamp duty or stamp duty reserve tax ("SDRT");
 - (ii) Agreements to transfer Ordinary Shares within CREST will be subject to SDRT normally at the rate of 0.5 per cent. of the amount or value of the consideration. The charge to SDRT arises, in the case of an unconditional agreement to transfer such shares within CREST, on the date of the agreement and, in the case of a conditional agreement, on the date the agreement becomes unconditional. The SDRT will normally be collected from the transferee by the CREST member through whom the transaction is effected and paid to the Inland Revenue on the date agreed between the Inland Revenue and the operator of the CREST system;
 - (iii) There is normally no additional stamp duty or SDRT liability where Ordinary Shares are taken out of CREST (otherwise than pursuant to a transfer on sale) or where Ordinary Shares are deposited in CREST for conversion into uncertificated form (otherwise than pursuant to a transfer

on sale or in contemplation of such sale). A transfer of Ordinary Shares on a CREST transfer form pursuant to a transfer on sale for conversion into uncertificated form will not generally give rise to a charge to stamp duty but will attract an SDRT liability normally at the rate of 0.5 per cent. on the amount or value of the consideration;

- (iv) Where a stamp duty liability arises, this is payable by 30 days after the date on which the stampable transfer is executed. Interest and penalties are normally charged if stamp duty or SDRT are paid after the due date. Transfers of Ordinary Shares will be liable to ad valorem stamp duty normally at the rate of 0.5 per cent. of the actual consideration paid. The stamp duty liability will be rounded up to the nearest multiple of £5. A charge to SDRT, normally at the rate of 0.5 per cent. of the consideration paid, arises, in the case of an unconditional agreement to transfer shares, on the date of agreement, or, in the case of a conditional agreement, on the date the agreement becomes unconditional. The SDRT is payable on the seventh day of the month following the month in which the charge arises. However, where an instrument of transfer is executed and duly stamped before the expiry of a period of six years beginning with the date of that agreement (or the date on which the agreement becomes unconditional, as the case may be), the SDRT charge is cancelled to the extent that the SDRT has not been paid and, if any of the SDRT has been paid, a claim may be made for it to be repaid.

12.5 *UK Inheritance Tax*

12.5.1 The Ordinary Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or on the death of, an individual holder of such assets may (subject to certain exemptions and reliefs, in particular Business Property Relief) give rise to a liability to UK inheritance tax. This is regardless of whether or not the individual holder is domiciled or deemed to be domiciled in the UK and whether or not the holder is resident and/or ordinarily resident in the UK for tax purposes. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply where the donor reserves or retains some interest or benefit in the property being transferred. Special rules also apply to close companies and to trustees of settlements who hold Ordinary Shares bringing them within the charge to UK inheritance tax.

13. **General**

- 13.1 The gross proceeds of the Placing will be £870,000 and the net proceeds after deduction of the expenses are estimated at £570,000. The total costs and expenses relating to Admission and the Placing are payable by the Company and are estimated to amount to approximately £300,000 including Value Added Tax.
- 13.2 Seymour Pierce has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.
- 13.3 Seymour Pierce Ellis has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.
- 13.4 Smith & Williamson have given and not withdrawn their written consent to the inclusion of references to them herein in the form and context in which they appear and to the inclusion of their report in Part II of this document and have accepted responsibility for the report set out in Part II for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Regulations.
- 13.5 Other than the current application for Admission, the Ordinary Shares and Warrants have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made, nor are there intended to be any other arrangements for dealings in the Ordinary Shares and Warrants.
- 13.6 The accounting reference date of the Company is 30 September.

- 13.7 For the purposes of paragraph 21(a) of Part IV of Schedule I to the Regulations, as the Placing is fully underwritten there is no minimum amount which must be raised for the Company pursuant to the Placing.
- 13.8 The Placing Price represents a premium over nominal value of 2.5 pence per Ordinary Share.
- 13.9 The existing Ordinary Shares are in registered form. In connection with the Placing temporary documents of title will not be issued. It is expected that definitive share and Warrant certificates will be despatched by hand or first class post by 20 March 2002. In respect of Ordinary Shares to be held in uncertificated form, it is expected that Shareholders' CREST accounts will be credited on 13 March 2002.
- 13.10 The Directors are unaware of any exceptional factors which have influenced the Company's activities.
- 13.11 The Directors are not aware of any patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Company's business.
- 13.12 There has been no significant change in the trading or financial position of the Company since 30 September 2001, the date to which the last set of accounts of the Company were made up.
- 13.13 Save as disclosed in this document, no person directly or indirectly (other than the Company's professional advisers and trade suppliers or save as disclosed in this document) has in the last twelve months received or is contractually entitled to receive directly or indirectly from the Company on or after Admission, any payment or benefit from the Company to the value of £10,000 or more or securities in the Company to such value or entered into any contractual arrangements to receive the same from the Company at the date of this document.
- 13.14 Save as disclosed in this document, there are no significant investments in progress.
- 13.15 Other than as disclosed in this document, there have been no significant recent trends concerning the development of the Company's business nor any significant acquisitions or disposals of assets since 30 September 2001.
- 13.16 Moneys received from the applicants pursuant to the Placing will be held by Seymour Pierce Ellis until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 15 March 2002 (or such later date as the Company and Seymour Pierce may agree) application moneys will be returned to applicants at their risk without interest.

14. Availability of Prospectus

Copies of this document will be available to the public, free of charge, from the offices of Seymour Pierce, 29/30 Cornhill, London EC3V 3NF from the date of this document until at least one month after Admission.

Dated: 8 March 2002

