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Application has been made for the Ordinary Shares to be admitted to trading on 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 more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document.

The Directors, whose names appear on page 5, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors, 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, no person is authorised to give any information or make any representation other than as contained in this document.

Your attention is also drawn to the discussion of risks and other factors which should be considered in connection with an investment in the Ordinary Shares, set out in "Risk Factors" in Part II of this document. Notwithstanding this, prospective investors should read the whole text of this document.



(Incorporated and registered in England and Wales with company number 5113820)

FONEBAK PLC

Admission to trading on AIM

and

Placing of 11,228,737 Ordinary Shares at 125 pence per share

by

KBC PEEL HUNT LTD

Nominated Adviser and Broker

The Placing is conditional, *inter alia*, on Admission taking place on or before 31 March 2005 (or such later date as the Company and KBC Peel Hunt may agree). The Placing Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the Ordinary Shares and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission.

KBC Peel Hunt, which is regulated by the Financial Services Authority, is acting as the Company's nominated adviser in connection with the proposed admission of the Company's Ordinary Shares to trading on AIM. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by KBC Peel Hunt as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). KBC Peel Hunt will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Placing or any acquisition of shares in the Company.

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DEFINITIONS

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

“Act”	the Companies Act 1985 (as amended)
“Admission”	the admission of the Ordinary Shares to trading on AIM
“AIM”	a market operated by London Stock Exchange
“AIM Rules”	the rules published by London Stock Exchange relating to AIM
“Articles”	the Articles of Association of the Company
“Board”	the board of directors of the Company
“Company” or “Fonebak”	Fonebak plc, a company registered in England and Wales with registered number 05113820
“CREST”	the computerised system for trading shares in uncertificated form in the UK operated by CRESTCo
“CRESTCo”	CRESTCo Limited, the operator (as defined in The Uncertificated Securities Regulations 1995) of the system for trading shares in uncertificated form known as “CREST”
“Directors”	the directors of the Company, whose names are set out on page 5
“Group”	the Company and its subsidiaries
“KBC Peel Hunt”	KBC Peel Hunt Ltd
“London Stock Exchange”	London Stock Exchange plc
“Option”	an option to acquire Ordinary Shares in the Company pursuant to the Share Plan
“Ordinary Shares”	ordinary shares of 2 pence each in the Company
“Placing”	the conditional placing by KBC Peel Hunt, as agent for the Company, of the Placing Shares at the Placing Price, pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 24 March 2005, between the Company, the Directors, Daniel Shields and KBC Peel Hunt relating to the Placing and Admission, further details of which are set out in paragraph 11 of Part VI
“Placing Price”	125p per Ordinary Share
“Placing Shares”	11,228,737 Ordinary Shares to be placed pursuant to the Placing
“POS Regulations”	the Public Offers of Securities Regulations 1995 (as amended)
“SEG”	Shields Environmental Group plc
“SE”	Shields Environmental plc, a wholly owned subsidiary of SEG
“Share Plan”	the Company’s enterprise management incentive plan, further details of which are set out in paragraph 7 of Part VI of this document
“Shields Environmental Group”	SEG and its subsidiaries
“WEEE Directive”	Directive 2002/96/EC of the European Parliament and the Council on waste electrical and electronic equipment

GLOSSARY OF TECHNICAL TERMS

The following technical terms are used in this document:

“14 day stock”	nearly new mobile phones which cannot be resold as a new product
“client”	in the context of this document, a body which in some form supplies mobile phones to the Company
“customer”	in the context of this document, a body to which the Company sells mobile phones
“IMEI” or “International Mobile Equipment Identity Number”	a unique number given to each individual mobile phone
“mobile phones”	together, mobile phone handsets and associated accessories
“network providers”	companies which provide a range of mobile telecommunications services, including voice and data communications
“ISO 9001 2000”	an international standard primarily relating to quality management, as published by the International Organization for Standardization
“ISO 14001”	an international standard primarily relating to environmental management, as published by the International Organization for Standardization

DIRECTORS AND ADVISERS

Directors	Gordon Shields, <i>Non-executive Chairman</i> Kathleen Woodward, <i>Chief Executive</i> Stephen Shields, <i>Managing Director</i> Arthur Crocker, <i>Finance Director</i> David Holland, <i>Non-executive Director</i> all of:
Registered Office	Unit 2 Eurocourt, Oliver Close, West Thurrock, Essex RM20 3EE
Secretary	Arthur Rupert Crocker
Nominated Adviser and Stockbroker	KBC Peel Hunt Ltd 111 Old Broad Street London EC2N 1PH
Auditors and Reporting Accountants	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Solicitors to the Company	DLA Piper Rudnick Gray Cary UK LLP 3 Noble Street London EC2V 7EE
Solicitors to the Placing	Nabarro Nathanson Lacon House Theobalds Road London WC1X 8RW
Bankers	Bank of Scotland plc 155 Bishopsgate London EC2M 3YB
Registrars and Receiving Agents	Computershare Investor Services PLC PO Box 859 The Pavilions Bridgwater Road Bristol BS99 1XZ Tel: 0870 702 0100
Financial Public Relations	Pelham Public Relations No 1 Cornhill London EC3V 3ND

KEY INFORMATION

This information is derived from, and should be read in conjunction with, the full text of this document.

- Fonebak is the UK leader in the refurbishment and end-of-life processing of mobile phones. It offers an end-to-end solution for the collection, re-use and recycling of mobile phones and accessories. Where economically viable, mobile phones are either processed and refurbished and sold to developing countries or processed and sold non-refurbished. Unrepairable or older mobile phones are sent for recycling where the reusable materials are put back into productive use.
- The Company obtains mobile phones from a variety of sources including network operators, retailers, other corporate organisations and charities. The majority of mobile phones have been returned to the network providers, retailers or manufacturers as part of upgrade or trade-in promotions.
- Following repair and/or refurbishment, mobile phones are repackaged and then sold to retailers and distributors predominantly in Africa, Asia Pacific and Eastern Europe. In these regions, mobile phones are not normally subsidised by the network providers and new handsets are therefore generally prohibitively expensive for the majority of the population.
- The Company works proactively with its clients to deliver solutions that generate financial returns for them, rather than incurring costs, while supporting their environmental and corporate responsibility policies. Since its launch two years ago, Fonebak has processed over 3.5 million mobile phones for re-use and recycling, 2.0 million of which were processed in the 12 months to 31 January 2005.
- The Fonebak business proposition was officially launched in September 2002 with the endorsement of Orange, mmO2, T-Mobile UK, Virgin Mobile, Vodafone, Dixons and the UK Government. The Company now has several hundred clients across the UK and Europe, including major network operators, major retailers, other corporate organisations and charities.
- Currently it is estimated that over 13 million mobile phone handsets are replaced each year in the UK alone, equating to in excess of 1,500 tonnes of potentially hazardous landfill, and it is estimated that only 3.7 million of these handsets are currently recycled.
- The Directors believe that Fonebak is a showcase for the telecommunications industry complying with current legislation and the forthcoming WEEE Directive, which sets guidelines and targets for the take back and recycling of potentially harmful electrical waste. This directive is designed to reduce the quantity of waste from electrical and electronic products and increase re-use, recovery and recycling from private households.
- The Directors believe that Fonebak has the following key strengths which create barriers to entry:
 - long established relationships with network operators;
 - software systems developed specifically to provide product tracking and reporting;
 - outstanding environmental reputation;
 - project management skills that combine market awareness with in-depth environmental awareness and compliance;
 - an international sales team with market knowledge, relationships and technical expertise; and
 - cost effective refurbishment capability with substantial expansion capacity.

PLACING STATISTICS

Placing Price	125 pence
Number of new Ordinary Shares to be placed on behalf of the Company	4,000,000
Number of existing Ordinary Shares to be placed on behalf of existing shareholders	7,228,737
Market capitalisation at the Placing Price	£24.0 million
Number of Ordinary Shares in issue on Admission	19,199,995
Percentage of enlarged issued share capital subject to the Placing	58.5 per cent.
Gross proceeds of the Placing available to the Company	£5.0 million
Net proceeds of the Placing available to the Company	£3.8 million

EXPECTED TIMETABLE

Admission and dealings in the Ordinary Shares to commence on AIM	31 March 2005
CREST accounts credited	31 March 2005
Despatch of definitive share certificates (where applicable)	by 14 April 2005

Each of the dates above is subject to change.

PART I

INFORMATION ON THE GROUP

INTRODUCTION

Fonebak is the UK leader in the refurbishment and end-of-life processing of mobile phones. It offers an end-to-end solution for the re-use and recycling of mobile phones and accessories. Currently it is estimated that over 13 million mobile phone handsets are replaced each year in the UK alone, equating to in excess of 1,500 tonnes of potentially hazardous landfill, and it is estimated that only 3.7 million of these handsets are currently recycled.

Where economically viable, mobile phones are either processed and refurbished and sold to developing countries or processed and sold non-refurbished. Unrepairable or older mobile phones are sent for recycling where the reusable materials are put back into productive use.

The Company works proactively with its clients to deliver solutions that generate financial returns for them, rather than incurring net costs, while supporting their environmental and corporate responsibility policies. Since its launch two and a half years ago, Fonebak has processed over 3.5 million mobile phones for re-use and recycling, 2.0 million of which were processed in the 12 months to 31 January 2005.

The Fonebak business proposition was officially launched in September 2002 with the endorsement of Orange, mmO2, T-Mobile UK, Virgin Mobile, Vodafone, Dixons and the UK Government. The Company now has several hundred clients across the UK and Europe, including major network operators, major retailers, other corporate organisations and charities.

The Directors believe that the scheme is a showcase for the telecommunications industry complying with current legislation and the forthcoming WEEE Directive, which sets guidelines and targets for the take back and recycling of potentially harmful electrical waste. This directive is designed to reduce the quantity of waste from electrical and electronic products and increase re-use, recovery and recycling from private households.

COMPANY HISTORY

The business and operations of Fonebak originally formed part of SEG, a business founded by Gordon Shields in 1979.

SEG's wholly owned subsidiary, SE, started dealing with clients' environmental issues in the mid 1980's and became one of the first companies in the world to have a formal environmental management system and report publicly on its environmental impact. SE's first major contract was to provide asset management services to support British Telecom plc's exchange modernisation programme. At the time, it was one of the largest telecommunications environmental projects in Europe.

The project management, systems and technical expertise and relationships gained during the lifetime of this activity provided the platform to harness the opportunity of providing logistics, asset management and compliance services to the fast-growing mobile phone industry. After the end of this project and using the experience and contacts obtained, SEG began to develop its mobile phone division.

In 2001, SEG created two separate divisions, Network Infrastructure and Mobile Phones, focussing its management resource on effectively servicing the growing needs of network operators.

The Mobile Phone division extended its reach into Europe establishing a presence in several European countries. A service relationship was established in 2002 with a Romanian based repair centre, which provided low cost, offshore repair and refurbishment services. SEG acquired a majority stake in this business in September 2003.

In September 2004, the Shields Environmental Group was reorganised and Fonebak became a separate legal entity comprising the Mobile Phone division. The remaining Network Infrastructure business was retained

by SEG. Although SEG and Fonebak currently have some shareholders in common, the two entities are operated independently.

OPERATIONS

General

The Company obtains mobile phones from a variety of sources including network operators, retailers, other corporate organisations and charities. Once received, each mobile phone is initially sorted and tested with the aim of establishing whether it should be refurbished or sent for recycling. Based on the Company's experience, only a small proportion of mobile phones sourced are deemed beyond economic repair and are therefore recycled.

Following repair and/or refurbishment, mobile phones are repackaged and then sold to retailers and distributors predominantly in Africa, Asia Pacific and Eastern Europe. In these regions, mobile phones are not normally subsidised by the network providers and new handsets are therefore generally prohibitively expensive for the majority of the population.

Planning and implementation

The Company works closely with clients to develop and implement innovative marketing programmes designed to encourage consumers to return their used mobile phones. These programmes can be tailored and adapted to suit the client's environmental and corporate responsibility policies, marketing initiatives and brand identity. The process allows for the gathering of customer and product profile information which can be used by network providers to assist in targeted marketing strategies.

The Company is responsible for managing each repair, refurbishment or recycling project to ensure that its clients' needs are met and financial returns are maximised whilst meeting environmental regulatory requirements. This can range from developing marketing campaigns and setting up the software systems and collections in retail outlets, to providing a complete audit trail of all products received. Fonebak has invested significant amounts in systems and software and offers its clients a range of online tools including software for recording and facilitating the receipt and payment for mobile phones returned during their trade-in processes and software to facilitate marketing campaigns.

The Company also offers advice to clients on compliance with environmental legislation, including the forthcoming WEEE Directive, which, when fully implemented will require manufacturers, distributors and network operators to be responsible for the collection and recycling of mobile phones in an environmentally efficient way. The directive will also require target recycling rates to be set and proof must be provided that these rates have been achieved.

Inbound

Historically over 80 per cent. of mobile phones sourced by the Company are used handsets and accessories, the majority of which have been returned by customers to the network providers, retailers or manufacturers as part of upgrade or trade-in promotions. Mobile phones are also sourced from environmental schemes run by various organisations such as charities.

As of March 2005, Fonebak's clients are network operators in the UK including 3, mmO₂, Orange, T-Mobile, Virgin Mobile, and Vodafone and retailers, including Dixons Group (Dixons, Currys, PC World, The Link), Phones 4 U, Argos and The Body Shop. Expansion in Europe over the last two years has resulted in contract wins across Belgium, France, Spain, Holland, Portugal, and Greece. These include major networks and retail chains.

Fonebak provides a full range of logistics services to clients, arranging and managing the collection of mobile phones and accessories from over 2,000 outlets in the UK alone. Stringent security, waste management and tracking processes and software enable products to be shipped safely in line with both clients' requirements and environmental legislation.

Inbound mobile phones were initially sourced exclusively from the UK but increasing numbers are also now sourced from other countries in Western Europe (mainly France, Benelux countries, Spain and Portugal). In the year ended 30 June 2004, approximately 46 per cent. of the mobile phones came from UK network providers, 9 per cent. from UK retailers and 15 per cent. from manufacturers. The remainder came from other sources including mainland Europe.

In the year ended 30 June 2004, approximately 7 per cent. of inbound mobile phones sourced from network providers and/or retailers and manufacturers were 14 day stock.

A small percentage, historically approximately 4 per cent., of inbound mobile phones have been new stock from network operators. These are normally purchased by the Company and sold directly to customers to satisfy pre-determined orders.

Processing

Mobile phones are collected by courier, freepost or bulk collection and sent to the Company's logistics centre in Essex. Returned handsets are processed to meet individual client-specific requirements, which may include data cleansing, de-branding, and IMEI tracking. Handsets are assessed for refurbishing/resale capability and streamed according to their condition, make and model.

Specialist processing streams have been established to efficiently manage the quick turn around, warranty checking, testing and the repackaging of these products. Those suitable for re-use are thoroughly tested and refurbished or, post processing, may be sold non-refurbished. Mobile phones refurbished by the Company are boxed into Fonebak house-style packaging (now an established brand in Africa) or bulk packed and exported.

In September 2003, a majority stake in a low cost Romanian refurbishment facility was acquired. In June 2004 the centre was relocated to a secure, purpose built facility with capacity to process up to 300,000 handsets per month. In the last month, the Company processed approximately 50,000 handsets and it currently employs over 100 highly trained staff. The facility has achieved the ISO quality and environmental accreditations ISO 9001: 2000 and ISO 14001. An increasing number of mobile phones refurbished by the Company are processed in Romania.

Fonebak's integrated barcode tracking system can be linked to diagnostic software that builds important model performance and contributes to quality control and environmental reporting in compliance with the forthcoming WEEE Directive. Fonebak is able to provide clients with comprehensive financial and environmental reports, backed by a full audit trail, thereby facilitating compliance with legal and client-specific requirements.

Mobile phones that are not capable of economic refurbishment and resale are separated into appropriate waste streams and sent for reprocessing at specialist centres in Europe that are able to safely recover materials which are capable of being returned to productive use. For example, the nickel extracted from batteries can be used in new batteries or in stainless steel. The supplier selection, environmental auditing and reporting data associated with this activity is a critical element in the end-to-end service provided to clients. All downstream recycling partners are audited on their environmental performance to ensure environmental best practice. Fonebak receives a small fee for each tonne of mobile phones recycled.

Outbound

Fonebak has an experienced international sales team with a wide range of technical sales expertise and market knowledge. The customer base, which typically includes small to medium sized retailers and distributors, is predominantly drawn from Africa, Asia Pacific and Eastern Europe. The Company is committed to the development of new markets and to the continual expansion of its customer base. In addition, the Company has experience with high security shipping, and consignments can often be shipped within 24 hours.

The provision of low-cost handsets plays an important role in developing mobile phone markets. Many of the countries where they are sold have limited or no regional fixed line telephony services. In many of these territories new mobile phone handsets do not receive subsidies, resulting in their price being prohibitively expensive.

Although price is a key factor, the handsets are still considered status and fashion statements, creating a demand for recognised refurbished models. There is an obvious price differential between new, 14-day and used product, which appeals to different socio-economic groupings in each geographic region.

Regulatory and market drivers

Fonebak supports clients in all aspects of current and forthcoming environmental compliance, including waste transfer regulations, duty of care responsibilities, special waste regulations and the forthcoming WEEE Directive. This directly affects the electronics sector in the UK and Europe. In the UK, the regulations are anticipated to come into effect later this year.

The WEEE Directive deals with both the recovery of electrical goods and the safe treatment of the products received with verified recycling rates. Fonebak's integrated service already meets all of the criteria in relation to mobile phone handsets and accessories with established, well-publicised take-back mechanisms, product tracking and reporting that includes a proven recycling rate meeting the 65 per cent. specified within the regulations.

Many of the network operators are conscious of their corporate profile and utilise their relationship with Fonebak to demonstrate a commitment to environmental best practice, which can be evidenced in their corporate social responsibility reports published annually. Mobile phone recycling is seen to be a key impact area, which they wish to measure and report on publicly.

In addition, the mobile phone market place is highly competitive and the concept of trading in/upgrading mobile phones is utilised by many network operators to both acquire and retain its customer base. Of the 45 million handset owners in the UK, most change their handsets after two years or less of ownership.

Further, it is estimated that there are 1.25 billion users of mobile phones worldwide and that the number of users grew by 27.7 per cent. in 2004. It is also estimated that in excess of 80 per cent. of the world's population has wireless coverage but only 25 per cent. of them use mobile services. Research has shown that the cost of handsets is the single biggest barrier to the use of such services.

Focus on the environment

Publicly reporting environmental performance is an important part of the culture at Fonebak. This policy supports the Company's 'open book' policy with clients and describes the impact and the actions being taken to minimise the impact of Fonebak's business on the environment.

Protection of the environment is central to the Company's business strategy and accordingly an environmental management system has been developed which is certificated to ISO 14001. The system has been incorporated into all operations to ensure that environmental risk is managed, minimalised and measured to enable annual public reporting of the Company's environmental performance. All other systems in the UK and Romania are also certified to ISO 14001.

Revenue model

Fonebak operates a revenue sharing model for used stock with the majority of its clients. Under this model, Fonebak retains a percentage of gross proceeds from the sale of mobile phones and pays the balance to the client after certain deductions. New and 14 day stock is typically acquired by the Company as principal and then sold on to its customers.

Marketing

The Company's marketing strategy is aimed both at clients to maximise in-bound volumes and customers to secure the best price in out-bound markets. In-bound strategies include establishing a national profile for Fonebak in each of its selected geographies through media reporting, utilising the endorsement of the established networks to leverage relationships in their international subsidiaries and associates, and providing marketing collateral for use in their retail, corporate, and social responsibility activities. Out-bound strategies focus on maintaining the Fonebak brand as the source of high volume and quality products. New customers are identified through the use of international advertising, trade development missions and web-based information.

Competition

Fonebak dominates the re-use and recycling market for mobile phones in the UK. Competitors are mainly small operators, independent brokers and various charity collectors. The European market is still developing and competition is fragmented.

Key Strengths

The Directors believe that Fonebak has the following key strengths which create barriers to entry:

- long established relationships with network operators;
- software systems developed specifically to provide product tracking and reporting;
- outstanding environmental reputation;
- project management skills that combine market awareness with in-depth environmental awareness and compliance;
- an international sales team with market knowledge, relationships and technical expertise; and
- cost effective refurbishment capability with substantial expansion capacity.

HISTORICAL FINANCIAL INFORMATION

The business and assets forming the Fonebak business did not constitute a statutory sub-group within the Shields Environmental Group prior to 15 September 2004, when they were separated from that group. Accordingly it has been necessary to compile carve-out financial information for the purposes of this document. The financial information may therefore not be representative of future results. For example, the historical capital structure does not reflect the future capital structure and future interest income and expense, certain operating costs, tax charges and dividends may be significantly different from those that resulted from being part of the Shields Environmental Group.

The goodwill amortisation charge and financing costs for the periods to 15 September 2004 reflect the goodwill, capital structure and financing arrangements in place prior to the group reorganisation that took place on that date. These are significantly different from those that have existed since that date.

The financial information for the three years ended 30 June 2002, 30 June 2003 and 30 June 2004, set out below, has been extracted without material adjustment from Part III of this document. This financial information has been prepared on a carve-out basis, in accordance with the basis of preparation, set out in notes 1 and 2 of Part III of this document.

The financial information on the Fonebak business for the six months ended 31 December 2004, set out below, which has not been audited, has been extracted without material adjustment from Section A of Part IV of this document. This interim financial information has been prepared on a pro-forma combined basis, in accordance with the basis of preparation, set out in notes 1 and 2 of Section A of Part IV of this document.

	<i>Year ended 30 June</i>		<i>Six months ended</i>	
	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>31 December</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	21,043	24,409	26,953	18,245
Gross profit	4,286	5,610	5,960	3,014
Operating profit	1,853	2,176	2,439	1,000
Profit/(loss) before tax	1,796	2,143	2,453	(564)

The loss before tax for the six months ended 31 December 2004 was impacted by exceptional financing costs of £1.4 million.

In accordance with the AIM Rules and the Act, the first statutory results which the Company is required to report on will be for the period from 27 April 2004 to 30 June 2005. These statutory results will not include

the results of the Fonebak business for the period from 27 April 2004 to 14 September 2004, inclusive, as during this period the Fonebak business did not form part of the Group.

CURRENT TRADING AND PROSPECTS

Fonebak continues to make steady progress in securing inbound product volumes and is working with each of its clients to develop strategies to increase the overall percentage of handsets returned for re-use and recycling. In Europe, the Directors believe its investment in infrastructure provides a foundation for increasing volumes of handsets to be sourced outside of the UK.

It has been predicted that there will be an additional one billion mobile handset owners over the coming decade fuelling, in the Directors' opinion, a strong requirement for cost effective handsets in the Company's outbound markets.

Looking further ahead, the Directors believe that the future growth opportunities for the business remain positive and that the Company will be well placed to exploit these opportunities following Admission.

DIRECTORS AND EMPLOYEES

Directors

Details of the Directors, their roles and their backgrounds are as follows:

Sydney Gordon Shields, Non-executive Chairman, aged 56

Gordon founded SEG in 1979 and has been heavily involved in the development of the business since that date. For some time, the day-to-day management of the Fonebak business has been left to the wider management team. He is currently executive chairman of SEG and non-executive Chairman of Fonebak. Gordon also sits on the leadership board of Business in the Environment.

Kathy Woodward, Chief Executive, aged 52

Kathy joined SEG in 2002 having previously spent five years with The Astron Group Limited ("Astron") where she held the main board position of group operations director. At Astron, she was instrumental in its transformation into a market leading outsourcing organisation providing services to government, utilities, airlines and financial services organisations. Prior to joining Astron she was Development Director with British Printing Company Ltd and had spent her early career with ICL plc.

Stephen Andrew Shields, Managing Director, aged 45

Stephen joined SEG in 1980 and initially focused on the project management associated with the BT modernisation programmes. Through the relationships developed with the major network providers on these programmes, he identified an emerging requirement for a professional asset management, remarketing and recycling service. He was instrumental in the establishment of the business of Fonebak and the development of integrated stock, sales and materials recycling control systems. In 2000 he was appointed managing director of the Mobile Phone division of SEG, and is now Managing Director of Fonebak.

Arthur Rupert Crocker, ACA, Finance Director, aged 43

Arthur joined SEG as Group Finance Director in 2001 after 14 years with PricewaterhouseCoopers where he served many of the firm's public and private corporate clients in fields including audit, due diligence, listed company transactions, forensic accounting and litigation work. He worked on a wide variety of cross-border transactions in many countries and developed a detailed knowledge of International Accounting Standards. He also contributed to a number of publications on the cross-border offering and listing process.

David Alan Holland, Non-executive Director, aged 57

David joined the Board as non-executive director in March 2005. He has spent 30 years in senior operational management roles, predominantly in business to business manufacturing environments. He has spent the past 15 years until 2004 within various companies, including The Polestar Group Ltd, where he filled a number of main board positions and was chairman of the Corporate Pension Trustee. Prior to that he was a Divisional Chairman of Norton Opax plc.

Employees

The Company currently has approximately 180 employees, over one hundred of which are based in Romania.

REASONS FOR THE PLACING AND ADMISSION

The Company is proposing to raise £5.0 million (before expenses) through the Placing.

As a result of the reorganisation of the Shields Environmental Group in September 2004, a loan of £8.9 million from Bank of Scotland plc (£0.25 million of which has since been repaid), was assumed by Fonebak.

The Company intends to use £2.65 million of the proceeds from the Placing together with cash of £2.0 million currently within the Group to repay £4.65 million of the existing loan. The remaining portion of £4.0 million of the existing loan will be replaced with a new term loan for an equivalent amount. A redemption premium of £0.6 million will also fall due and will be settled from part of the Placing proceeds.

In addition, the terms of the acquisition of Fonebak Servicii s.r.l. require the payment of an additional amount of £0.54 million on Admission (including for the buyout of the minority shares). No further amounts will be payable in respect of this acquisition.

The remainder of the proceeds from the Placing will be used to discharge the costs of Admission.

DETAILS OF PLACING AND ADMISSION

KBC Peel Hunt, as agent for the Company, has conditionally placed 4,000,000 new Ordinary Shares with investors at 125 pence per share. The Placing, which is not underwritten, is conditional, *inter alia*, upon Admission by 31 March 2005, or such later time as KBC Peel Hunt and the Company agree.

The Placing is intended to raise £5.0 million for the Company, before expenses. After the expenses of the Placing and Admission, estimated in total at £1.2 million (excluding VAT), the Placing is intended to raise £3.8 million.

It is expected that the proceeds of the Placing will be received by the Company on or shortly after Admission. It is expected that the appropriate stock accounts of placees will be credited with the Placing Shares comprising their Placing participation with effect from 31 March 2005. In the case of placees requesting Placing Shares in certificated form, it is expected that certificates in respect of the Placing Shares will be despatched by post, within 14 days of the date of Admission.

Pending despatch of share certificates or the crediting of CREST accounts, the Company's registrar will certify any instruments of transfer against the register.

Further details of the Placing Agreement are set out in paragraph 11 of Part VI.

In addition, as agent for Gordon Shields, Daniel Shields, certain employees of the company and Uberior Investments plc, KBC Peel Hunt has also conditionally placed 5,233,285, 771,791, 451,870 and 771,791 existing Ordinary Shares respectively with investors at 125 pence per share.

EQUITY PARTICIPATION AND LOCK-IN ARRANGEMENTS

Following Admission, the Directors will be interested, in aggregate, in 7,496,980 Ordinary Shares, representing 39.0 per cent. of the issued ordinary share capital of the Company. The Directors have agreed that they will not, except in certain limited circumstances, dispose of any further interests in the Company's share capital for a period of one year from Admission. They have also agreed that they will only dispose of Ordinary Shares through the Company's broker.

The Directors believe that the success of the Company depends to a high degree on the future performance of the management team. The Directors also recognise the importance of ensuring that all key employees are incentivised and identify closely with the profitability of the Company.

Accordingly, the Company has adopted the EMI Plan. Options have previously been awarded to Arthur Crocker in respect of 1.21 per cent. of the issued share capital (assuming exercise) immediately before Admission at 2 pence per share. As these options were granted before recent amendments to the EMI Plan made on 7 March 2005, they are not subject to performance criteria. Conditional upon Admission options have also been awarded to Kathy Woodward and Arthur Crocker amounting to (in aggregate) 4.50 per cent. of the issued share capital (assuming exercise) as at the date of Admission at a price per share equal to the Placing Price. The EMI Plan has performance criteria which requires 5 per cent. average annual growth in earnings per share over the three years from 1 July 2005 to 30 June 2008.

Further details of the interests of the Directors in Ordinary Shares and in options over Ordinary Shares are set out in paragraph 3 of Part VI of this document.

DIVIDEND POLICY

It is the Directors' intention to pay dividends in the future when, in the view of the Directors, the Company has sufficient cash for this purpose and it is permitted to do so by the Act.

CREST

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

CORPORATE GOVERNANCE

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

The Company has established an audit committee and a remuneration committee which will continue to operate following Admission, with formally delegated duties and responsibilities. The audit committee comprises David Holland (chairman) and Gordon Shields. The audit committee is responsible for both ensuring that the financial performance of the Company is properly reported on and monitored and for reviewing the auditors' reports relating to accounts and internal control systems.

The remuneration committee comprises Gordon Shields (chairman) and David Holland. The remuneration committee is responsible for the review and recommendation of the scale and structure of remuneration for Directors including the award of share options.

The Company has adopted a share dealing code for Directors and employees in accordance with the AIM Rules and will take proper steps to ensure compliance by the Board and relevant employees.

TAXATION

A general guide to the taxation of dividends for Shareholders who are resident in the UK is set out in paragraph 10 of Part VI of this document and your attention is drawn to this section. Persons who are in doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their professional advisers.

FURTHER INFORMATION

You should read the whole of this document before you decide whether to invest in the Company. Therefore, your attention is drawn to the additional information about the Company in Parts II to VI of this document and, in particular, to the risk factors set out in Part II of this document.

PART II

RISK FACTORS

An investment in Ordinary Shares involves a high degree of risk. Accordingly, prospective investors in Ordinary Shares should consider carefully all of the information set out in this document and the risks attaching to an investment in the Company, including, in particular, the risks described below, prior to making any investment decision. The information below does not purport to be an exhaustive list or summary of the risks which the Group may encounter and is not set out in any particular order of priority. Investors should consider carefully whether an investment in the Company is suitable for them in the light of the information in this document and the financial resources available to them and, if they have any doubts about the contents of the document, should consult with an investment adviser authorised under the Financial Services and Markets Act 2000.

The Group's business, financial condition or operations could be materially and adversely affected by the occurrence of any of the risks described below. In such case, the market price of the Ordinary Shares could decline due to any of these risks and investors could lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse affect on the Group.

Client relationships

The Group's inbound sales operations are dependent on relationships with a number of network providers and manufacturers. In particular, the Group has contracts with four major network providers who supply a significant proportion of the mobile phones sourced by the Group in the UK. The Directors believe that maintaining and developing these relationships is important for the Group's future success. The loss of one or more of these relationships may materially and adversely affect the financial or trading position or prospects of the Group.

In addition, the volume of mobile phones sourced depends in part on the use of trade-ins as part of the network providers marketing strategy. A change in strategy could materially influence the volume of mobile phones sourced by the Company.

Outbound sales

The Group's sales in the outbound market are generated through orders placed by customers with the Company's international sales team. There are no long term sales contracts which require customers to purchase products from the Group and these customers may choose to cease dealing with the Company without notice. The Directors believe that this risk is mitigated by the Group's long standing relationships with many of these customers. However, any significant loss of these relationships and increase in competitive suppliers into the market may adversely affect the financial and/or trading position and/or prospects of the Group.

Subsidies

The Group's ability to sell recycled handsets in the outbound market in Eastern Europe, Africa and Asia is reliant, in large part, on networks providers and manufacturers in those markets not subsidising their products. In the event that any such subsidies are introduced, this is likely to have an effect on the Group's operations in these territories and may adversely affect the financial or trading position or prospects of the Group.

Growth strategy

The continuing growth of the Group is dependent, in large part, on the ability to develop the inbound market in Europe. The Group's current revenues are derived primarily from the UK and the Directors believe that significant progress can be made by exploiting the European market further. In the event that the Group is

unable to develop the European market, this may have a material and adverse effect on the future success of the Group.

Stock obsolescence

The value of mobile phones held in stock by the Company could be materially influenced by external market pressures, such as the rapid introduction of new mobile phones using superior technologies and/or network infrastructure.

Government legislation and regulatory environment

The financial performance of the Group is dependent, in large part, on environmental sustainability continuing to be an important issue for governments and the community alike. The Directors believe that this is unlikely to change, however there can be no assurance that it will continue in the future. Furthermore, there may be changes to legislation and government policy or practice which could adversely affect the Group's operations. In the event that this occurs, there may be a decrease in demand for the Group's products and services, which may adversely affect the financial and/or trading partners and/or prospects of the Group.

Dependence on key executives and personnel

The Group's future success is substantially dependent on the continued services and performance of its executive directors and senior management and its ability to continue to attract and retain highly skilled and qualified personnel. The Directors cannot give assurances that members of the senior management team and the executive Directors will continue to remain with the Group. The loss of the services of the Directors, members of senior management and other key employees could damage the Group's business.

Further details on the Directors may be found in Part I of this document.

The need to raise additional capital in the future

The Group's capital requirements depend on numerous factors, including its ability to maintain and expand its customer base and potential acquisitions. It is difficult for the Directors to predict accurately the timing and amount of the Company's capital requirements. If the plans or assumptions set out in the Company's business plan change or prove to be inaccurate, or if the Company makes any material acquisitions, the Company may require further financing. Any additional equity financing may be dilutive to Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

Current operating results as an indication of future results

The Group's operating results may fluctuate significantly in the future due to a variety of factors, many of which are outside of its control. Accordingly, investors should not rely on comparisons with the Group's results to date as an indication of future performance. Factors that may affect the Group's operating results include increased competition, an increased level of expenses as it continues to expand into new business areas, slower than expected take-up by customers of its products and services and changes to the statutory and regulatory regime in which it operates. It is possible that, in the future, the Group's operating results will fall below the expectations of securities analysts or investors. If this occurs, the trading price of the Company's shares may decline significantly.

Share price effect of sales of Ordinary Shares

The market price of Ordinary Shares could decline significantly as a result of any sales of Ordinary Shares by certain shareholders following expiry of the lock-up period (or earlier in certain circumstances), as detailed in the paragraph included 'Equity Participation and Lock-In Arrangements' in Part I of this document, or the perception that these sales could occur.

International Financial Reporting Standards

In June 2002, the Council of Ministers of the European Union approved a regulation (the “Regulation”) requiring all companies that are governed by the law of a member state of the European Union and whose securities are admitted to trading on a regulated market of any member state to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. The Regulation is to be effective for each financial year starting on or after 1 January 2005.

On 12 October 2004, AIM changed its regulatory status and it is now regulated by London Stock Exchange. Therefore, it is no longer a regulated market under European Union regulations. On 7 October 2004, London Stock Exchange issued guidance to Rule 17 of the AIM rules which stated that London Stock Exchange intends to mandate International Accounting Standards for all AIM companies for financial years commencing on or after 1 January 2007. AIM companies are encouraged to prepare for this change well in advance of this date.

It is expected that there will be significant continuing developments in IFRS between now and the date of adoption of IFRS by the Company and consequently there is uncertainty about exactly what IFRS will require at that time.

In the meantime, the UK Accounting Standards Board is adopting a phased transition to the conversion of existing UK financial reporting standards (“UK FRS”) to IFRS and as a result is in the process of issuing a number of new standards or revisions to existing standards over the next two years. However, it is likely that, by the IFRS implementation date set by London Stock Exchange, UK FRS will not be fully aligned by IFRS.

Therefore the transition of UK FRS to IFRS and/or the adoption of IFRS could possibly have a material impact on the Group’s financial position and reported results, although it is not possible for the Directors to quantify the impact at this time.

Volatility in share price and liquidity

It may be more difficult for an investor to realise his or her investment in an AIM traded company than a company whose securities are listed on the Official List of the United Kingdom Listing Authority. AIM has been in existence since June 1995 but its future success and liquidity as a market for the Ordinary Shares cannot be guaranteed. The trading price of the Ordinary Shares may be subject to wide fluctuations in response to a range of events and factors, such as variations in operating results, announcements of technological innovations or new products and services by the Group or its competitors, changes in financial estimates and recommendations by securities analysts, the operating share price performance of other companies that investors may deem comparable to the Group, the general market perception of technology-based companies and news reports relating to trends in the Group’s markets. These fluctuations may adversely affect the trading price of the Ordinary Shares, regardless of the Company’s performance. Prospective investors should be aware that the value of the Ordinary Shares could go down as well as up, and investors may therefore not recover their original investment especially as the market in the Ordinary Shares may have limited liquidity.

PART III

ACCOUNTANTS' REPORT ON THE FONEBAK BUSINESS

The following is the text of a report received from the Company's reporting accountants:

“**PRICEWATERHOUSECOOPERS** 

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

The Directors
Fonebak plc
Unit 2, Eurocourt
Oliver Close
West Thurrock
Essex RM20 3EE

The Directors
KBC Peel Hunt Ltd
111 Old Broad Street
London
EC2N 1PH

24 March 2005

Dear Sirs

The Fonebak business

Introduction

We report on the combined financial information for the three years ended 30 June 2004 (the “Combined Financial Information”) set out below. This Combined Financial Information has been prepared for inclusion in the Admission Document dated 24 March 2005 (the “Admission Document”) of Fonebak plc (the “Company”).

The companies and unincorporated division which were acquired by the Company as part of the reorganisation of the Shields Environmental Group plc group, that took place on 15 September 2004 (see note 24, below), are collectively referred to throughout this report as the “Fonebak business”.

The Fonebak business did not constitute a statutory sub-group within the Shields Environmental Group plc group of companies during the period of the Combined Financial Information. Accordingly it has been necessary to compile carve-out financial information for the purposes of this report.

Basis of preparation

The Combined Financial Information set out below is based on the management accounts and accounting records of the companies and businesses that formed the Shields Environmental Group plc group of companies, for the three years ended 30 June 2004 (“the Management Accounts and Accounting Records”), and has been prepared on the basis set out in notes 1 and 2, below, after making such adjustments as we considered necessary. The Management Accounts and Accounting Records were prepared for the purpose of preparing the consolidated financial statements of Shields Environmental Group plc.

Responsibility

Such Management Accounts and Accounting Records were prepared for the purpose of preparing the consolidated financial statements of Shields Environmental Group plc, which were the responsibility of the directors of Shields Environmental Group plc, who approved their issue.

The directors of the Company (the “Directors”) are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the Combined Financial Information set out in our report from the Management Accounts and Accounting Records, to form an opinion on the Combined 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 Combined Financial Information. The evidence included that previously obtained by us relating to the audit of the consolidated financial statements of Shields Environmental Group plc. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the consolidated financial statements of Shields Environmental Group plc and the Management Accounts and Accounting Records underlying the Combined Financial Information, and whether the accounting policies are appropriate to the circumstances of the Fonebak business, 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 Combined Financial Information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Combined Financial Information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Fonebak business as at the dates stated and of its combined profits, combined statement of total recognised gains and losses and combined cash flows for the years then ended.

Consent

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

COMBINED PROFIT AND LOSS ACCOUNTS

	<i>Notes</i>	<i>Year ended 30 June</i>		
		<i>2002</i>	<i>2003</i>	<i>2004</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	3	21,043	24,409	26,953
Cost of sales		(16,757)	(18,799)	(20,993)
Gross profit		4,286	5,610	5,960
Distribution costs		(1,016)	(1,301)	(1,300)
Administrative expenses		(1,417)	(2,133)	(2,221)
Operating profit		1,853	2,176	2,439
Net interest (payable)/receivable	4	(57)	(33)	14
Profit on ordinary activities before taxation	3,5	1,796	2,143	2,453
Tax on profit on ordinary activities	6	(573)	(670)	(803)
Profit on ordinary activities after taxation and retained profit for the financial year		1,223	1,473	1,650

All the results stated above were derived from continuing operations.

The financial information above may not be representative of future results: for example, the historical capital structure does not reflect the future capital structure. Future interest income and expense, certain operating costs, tax charges and dividends may be significantly different from those that resulted from being part of Shields Environmental Group plc.

The goodwill amortisation charge and financing costs, for the periods presented above, do not reflect the group reorganisation that took place on 15 September 2004 (see note 24). These will be significantly different from those that will be recorded in the profit and loss accounts subsequent to the group reorganisation.

There are no differences between the profit on ordinary activities before taxation and the retained profit for the years stated above and their historical cost equivalents.

COMBINED STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit for the financial year	1,223	1,473	1,650
Exchange adjustments offset in reserves	–	13	5
Total recognised gains for the year	<u>1,223</u>	<u>1,486</u>	<u>1,655</u>

COMBINED RECONCILIATIONS OF THE MOVEMENT IN SHIELDS ENVIRONMENTAL GROUP PLC'S NET INVESTMENT IN THE FONEBAK BUSINESS

	<i>Notes</i>	<i>Year ended 30 June</i>		
		<i>2002</i>	<i>2003</i>	<i>2004</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit for the financial year		1,223	1,473	1,650
Net movement in funding balances with Shields Environmental Group plc and its remaining subsidiaries		(2,333)	(289)	43
Exchange adjustments offset in reserves		–	13	5
Net change in Shields Environmental Group plc's net investment in the Fonebak business		<u>(1,110)</u>	<u>1,197</u>	<u>1,698</u>
Opening Shields Environmental Group plc's net investment in the Fonebak business		2,496	1,386	2,583
Closing Shields Environmental Group plc's net investment in the Fonebak business	23	<u>1,386</u>	<u>2,583</u>	<u>4,281</u>

COMBINED BALANCE SHEETS

		<i>As at 30 June</i>		
		2002	2003	2004
	<i>Notes</i>	£'000	£'000	£'000
Fixed assets				
Intangible assets	8	–	14	612
Tangible assets	9	513	509	581
		<u>513</u>	<u>523</u>	<u>1,193</u>
Current assets				
Stock	10	1,651	3,335	3,589
Debtors	11	2,582	1,473	1,806
Cash at bank and in hand		1	526	3,129
		<u>4,234</u>	<u>5,334</u>	<u>8,524</u>
Creditors – Amounts falling due within one year	12	(3,361)	(3,274)	(5,258)
Net current assets		<u>873</u>	<u>2,060</u>	<u>3,266</u>
Total assets less current liabilities		<u>1,386</u>	<u>2,583</u>	<u>4,459</u>
Provisions for liabilities and charges	15	–	–	(175)
Equity minority interests		–	–	(3)
Net assets		<u>1,386</u>	<u>2,583</u>	<u>4,281</u>
Shields Environmental Group plc's net investment in the Fonebak business	23	<u>1,386</u>	<u>2,583</u>	<u>4,281</u>

COMBINED CASH FLOW STATEMENTS

	Notes	Year ended 30 June		
		2002 £'000	2003 £'000	2004 £'000
Net cash inflow from operating activities	16	3,059	1,278	3,838
Returns on investments and servicing of finance				
Interest received		–	6	20
Interest paid		(57)	(39)	(6)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(57)	(33)	14
Taxation		(308)	(639)	(626)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(366)	(319)	(360)
Sale of tangible fixed assets		4	80	20
Net cash outflow from capital expenditure and financial investment		(362)	(239)	(340)
Acquisitions				
Purchase of subsidiary undertakings	17	–	(140)	(326)
Cash acquired with subsidiary undertakings (net of overdrafts)		–	98	3
Net cash outflow from acquisitions		–	(42)	(323)
Net cash inflow before financing		2,332	325	2,563
Financing				
Increase in borrowings	18	–	500	–
Net movement in funding balances with Shields Environmental Group plc and its remaining subsidiaries		(2,333)	(313)	44
Net cash outflow before financing		(2,333)	187	44
(Decrease)/increase in net cash		(1)	512	2,607

RECONCILIATIONS OF NET CASH FLOW TO MOVEMENT IN NET CASH

	Year ended 30 June		
	2002 £'000	2003 £'000	2004 £'000
Net cash at beginning of period	2	1	13
(Decrease)/increase in net cash	(1)	512	2,607
Movement in borrowings	–	(500)	–
Consideration satisfied by issue of loan notes (notes 12 and 17)	–	–	(162)
Net cash at end of period	1	13	2,458

NOTES TO THE COMBINED FINANCIAL INFORMATION

1. Companies and unincorporated division included in the Combined Financial Information

This Combined Financial Information presents the financial record of the Fonebak business for the three years ended 30 June 2004. The following are the unincorporated division and subsidiary undertakings of Shields Environment Group plc ("SEG") the results and financial positions of which have been included in the Combined Financial Information.

<i>Company</i>	<i>Nature of business</i>	<i>Country of incorporation and/or operation</i>	<i>Effective interest as at 30 June</i>		
			<i>2002</i>	<i>2003</i>	<i>2004</i>
Mobile Phone Division	Refurbishment and resale of mobile phones, accessories and related services	UK	100%	100%	100%
Shields Environmental SA	Support services for the Fonebak business	Belgium	–	100%	100%
Shields Environmental SARL	Support services for the Fonebak business	France	–	100%	100%
Shields Environmental GmbH	Support services for the Fonebak business	Germany	–	100%	100%
Fonebak Servicii s.r.l.	Repair and refurbishment of mobile phones	Romania	–	–	83.125%

During the periods covered by the Combined Financial Information the Mobile Phone Division ("MPD") was the principal division of Shields Environmental plc ("SE"), a subsidiary of SEG. The four companies, listed above, were subsidiaries of SEG. The business of MPD was transferred, as a going concern, to Fonebak plc on 15 September 2004 as part of the group reorganisation referred to in note 24, below (the "group reorganisation"). In addition, the four companies, listed above, were acquired by Fonebak plc as part of the group reorganisation.

The unincorporated division and four companies, listed above, together form the Fonebak business.

Shields Environmental SA was acquired by SEG on 1 July 2002 for a consideration of £107,000. Shields Environmental SARL was acquired by SEG on 11 November 2002 for a consideration of £12,000. Shields Environmental GmbH was acquired by SEG on 12 June 2003 for a consideration of £21,000. 83.125 per cent. of the share capital of Fonebak Servicii s.r.l. was acquired by SEG on 19 September 2003 for a total consideration of £663,000 (including £175,000 which is payable upon the sale or flotation of the Fonebak business). Upon a sale or flotation of the Fonebak business, the Company is required to acquire the remaining shares of Fonebak Servicii s.r.l. The consideration payable is contingent upon certain events. The directors' current best estimate of the amount of this consideration is £363,000 (see note 17).

2. Accounting policies

(a) *Accounting convention*

The Combined Financial Information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom, which have been applied on a consistent basis.

(b) *Basis of preparation*

The Combined Financial Information of the Fonebak business has been prepared for each of the three years ended 30 June 2004 by carving out and combining financial information from the Management Accounts and Accounting Records, prepared for SEG consolidation purposes, of the individual companies and businesses that formed the SEG group, adjusting for relevant items previously recorded in the SEG consolidation. The Combined Financial Information contained in this report comprises the combined profit and loss accounts, cash flow statement and balance sheets of the companies and the unincorporated division which together comprise the Fonebak business at the date of this report.

The Combined Financial Information has been prepared as if the businesses had been owned and controlled by a separate entity throughout the entire period from 1 July 2001 to 30 June 2004, or from their date of acquisition by SEG, if later.

No undertakings were disposed of during the three years ended 30 June 2004. Internal transactions within the Fonebak business are eliminated on combination.

On the acquisition of a company, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses after the date of acquisition are dealt with in the profit and loss account.

The following principles have been adopted:

- As part of the SEG group, the Fonebak business incurred certain charges in respect of administration, management and other services including, but not limited to, management information systems, accounting and financial reporting, taxation, cash management, and professional services that were paid for by other SEG companies or divisions. The Fonebak business has been charged costs, recorded in the profit and loss account, by other SEG companies and divisions of SE for some of these services, as set out below. Although these charges are intended broadly to reflect the costs that would apply on an arms' length basis, it is possible that the terms of the relevant transactions would have been different if the transacting partners had not been connected with SEG. As more fully described below, allocations of overhead costs ceased during the year ended 30 June 2004, management fees charged by SEG ceased on the group reorganisation and, from 1 March 2004, the subsidiaries in Belgium, France and Germany have operated only on behalf of the mobile phone business.
- Management charges were raised by SEG to SE. In preparing the Combined Financial Information the charges have been allocated on the basis of the directors' estimate of the proportion of SEG resources utilised by MPD in the period from 1 July 2001 to 30 September 2003. After 1 October 2003, management charges were specifically raised by SEG on MPD, based on the directors' estimate of the utilisation of SEG resources by MPD, until the date of the group reorganisation (15 September 2004), when they ceased.
- From the date of their acquisition, the French, German and Belgian subsidiaries have acted as agents of SE in Europe and raised intra-group fees to SE in respect of those services. These fees were allocated to SE's divisions according to the directors' estimate of their utilisation of the resources of each of the subsidiaries. The management fees charged by the European businesses and not borne by MPD have been treated as income within the Combined Financial Information and the amounts are disclosed in notes 5 and 23.

- MPD also incurred certain overheads that, until October 2003, were shared with the other business operated by SE, and allocated to each of SE's divisions on the basis of the directors' estimate of the utilisation of the resources that those overheads represented. From October 2003, all overheads of the Fonebak business have been specifically incurred and no allocation has taken place.
- The tax charges in the Combined Financial Information have been determined on the basis of the tax charges recorded by SEG companies in their statutory accounts. These tax charges may have been affected by the taxation arrangements within the SEG group, and are not necessarily representative of the tax charges that would have been reported by the Fonebak business as an independent group. In addition, they are not necessarily representative of the tax charges that may arise in the future.
- The principal element of the tax charge in the Combined Financial Information relates to the activities of MPD. The MPD tax charge in the Combined Financial Information has been determined by the preparation of a tax computation for MPD as if it were a stand alone corporate entity, including the directors' best estimate of the allocation of the tax written down value of the assets of SE between MPD and the remaining SE business. This allocation will not be finalised until the tax computations for both SE and Fonebak plc relating to the year ending 30 June 2005 are submitted and agreed by the Inland Revenue. Accordingly, the basis of preparation of the MPD tax charge may not be representative of the tax charges that may arise in Fonebak plc in the future.
- The interest income and expenses recorded in the combined profit and loss accounts have been affected by the financing arrangements of the SEG group, and are not necessarily representative of the interest income and expense that would have been reported had the Fonebak business been independent. In addition, they are not necessarily representative of the interest income and expenses that may arise in the future. The interest income and expenses for the two years ended 30 June 2003 have been allocated on the same basis as the management charges for these years, as set out above, since the banking arrangements for MPD were not separated during these years. Separate bank accounts were opened for MPD and it began to operate them separately from the remaining SE businesses with effect from 1 July 2003. The interest income and expenses for the year ended 30 June 2004 are those that relate to MPD's separate bank accounts.
- The Fonebak business has not in the past formed a separate legal group and, therefore, it is not meaningful to show share capital or an analysis of reserves for the Fonebak business. The net assets of the Fonebak business are represented by the cumulative net investment of SEG in the Fonebak business (shown as "SEG net investment in the Fonebak business").
- The "SEG net investment in the Fonebak business" comprises: (a) loans due to and from SEG group companies; and (b) the net investment of the SEG group in MPD and the Belgian, French, German and Romanian subsidiaries.
- All non-trading transactions between the Fonebak business and the SEG group have been reflected as movements in "SEG net investment in the Fonebak business".

(c) *Turnover and cost of sales*

Turnover comprises invoiced amounts receivable by the Fonebak business, in the ordinary course of business, for sales of goods and services to third parties, excluding value added tax and other sales taxes. The Fonebak business records transactions as sales when the delivery of goods or performance of services has taken place in accordance with the terms of the sale.

A significant proportion of the turnover of the Fonebak business is generated from the sale of mobile phones and related accessories that are the subject of revenue sharing agreements with the clients that supply the mobile phones and accessories. Under these revenue sharing agreements, typically no payment is due to a client until the sale of the mobile phones and accessories has occurred. On the sale, the client receives an agreed share of the sales proceeds. The Fonebak business includes the share of revenue due to the client under these types of arrangements as cost of sales.

2. Accounting policies (continued)

(d) *Goodwill*

Goodwill is calculated as the excess of the fair value of the purchase consideration over the fair value attributable to the separately identifiable assets and liabilities of the acquired subsidiary. Goodwill is capitalised on acquisition and amortised on a straight-line basis over its estimated useful economic life. The life is determined after taking account of the nature of the business acquired and the nature of the markets in which it operates, and is typically between 5 and 20 years.

(e) *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset on a straight line basis over the asset's estimated useful life as follows:

Leasehold improvements	Over the period of the lease or life of the improvements if less
Motor vehicles	25 per cent. per annum
Plant and equipment	20 per cent. per annum
Computer hardware and software	33 per cent. per annum

(f) *Stock and work in progress*

Stock and work in progress is stated at the lower of cost and net realisable value. Cost includes all direct expenditure and an appropriate proportion of attributable overheads.

For stock items acquired under revenue sharing agreements, as described in note 2(c) above, legal title to the stock items does not pass to the Fonebak business until immediately before the items are sold. As the majority of the risks and rewards of the items received by the Fonebak business under the revenue sharing agreements reside with the Fonebak business they are accounted for as stocks of the Fonebak business. Under revenue sharing agreements cost is recorded at nil, except where an amount is paid to the suppliers in advance of the goods being sold or the Fonebak business guarantees that the suppliers will receive a minimum amount of the shared revenue. In these circumstances the amount of the payment or guarantee is included in stock.

(g) *Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Fonebak business' taxable profits and its results as stated in this Combined Financial Information.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary.

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

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted or where there are deferred tax liabilities against which the assets can be recovered.

(h) *Leases*

Rentals payable under operating leases are written off to the profit and loss account on a straight line basis over the periods of the leases.

2. Accounting policies (continued)

(i) *Foreign currencies*

Transactions denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into Sterling at rates of exchange ruling at the balance sheet date. The profit and loss accounts and cash flows of overseas subsidiaries are translated into Sterling at the weighted average exchange rates applicable during the year and their assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of opening net assets of overseas subsidiaries, together with differences between profit and loss accounts at average and closing rates, are shown as a movement in reserves. All other exchange differences are dealt with in the profit and loss account.

(j) *Pensions*

The Fonebak business offers defined contribution pension arrangements to certain employees. Payments to defined contribution pension schemes are expensed as incurred. The Fonebak business does not operate any defined benefit pension arrangements.

(k) *Provisions*

A provision is recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions in respect of deferred taxation are dealt with in accounting policy (g), above. Provisions in respect of deferred contingent consideration for acquisitions are made at the directors' best estimate of the likely consideration payable taking account of the performance criteria that affect the level of deferred consideration.

3. Segmental reporting

The Fonebak business has only one class of business, that of the refurbishment and resale or recycling of mobile phones, accessories and related products, and related services. All turnover originates from the United Kingdom. A geographical analysis of turnover by destination, based on the address to which the invoice is sent to the customer, is as follows:

Turnover by geographical destination

	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
United Kingdom	10,626	6,378	3,190
Continental Europe	3,740	1,981	1,578
Africa	2,121	2,607	5,414
Asia Pacific	4,556	13,443	16,771
Total	21,043	24,409	26,953

Profit before tax by geographical origin

	<i>Year ended 30 June</i>					
	<i>After</i>	<i>Before</i>	<i>After</i>	<i>Before</i>	<i>After</i>	<i>Before</i>
	<i>goodwill</i>	<i>goodwill</i>	<i>goodwill</i>	<i>goodwill</i>	<i>goodwill</i>	<i>goodwill</i>
	<i>amortisation</i>	<i>amortisation</i>	<i>amortisation</i>	<i>amortisation</i>	<i>amortisation</i>	<i>amortisation</i>
	<i>2002</i>	<i>2002</i>	<i>2003</i>	<i>2003</i>	<i>2004</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating profit/(loss):						
United Kingdom	1,853	1,853	2,209	2,209	2,477	2,477
Continental Europe	–	–	(33)	(20)	(38)	14
Total operating profit	1,853	1,853	2,176	2,189	2,439	2,491
Interest (payable)/receivable	(57)	(57)	(33)	(33)	14	14
Profit before tax	1,796	1,796	2,143	2,156	2,453	2,505

Net assets by geographical origin

	<i>As at 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
United Kingdom	1,386	2,448	3,968
Continental Europe	–	135	313
Total	1,386	2,583	4,281

Impact of acquisitions

There were no discontinued operations in the three years ended 30 June 2004. The subsidiaries acquired in the year ended 30 June 2003 operate sales offices in the countries in which they are incorporated. They have no significant third party income and are funded through management charges. The acquisition of these subsidiaries did not have a material impact on either the combined balance sheets or combined profit and loss accounts of the Fonebak business as at, and for the years ended, 30 June 2003 and 30 June 2004.

The subsidiary acquired in the year ended 30 June 2004, Fonebak Servicii s.r.l. (“Servicii”), operates a mobile phone repair and refurbishment facility in Romania. The Fonebak business had been using Servicii for approximately one year prior to its acquisition on 19 September 2003 for repair and refurbishment services. Servicii’s only significant customer prior to its acquisition was MPD, and this situation has continued post-acquisition. Accordingly, its post-acquisition turnover of £486,000 is fully eliminated on consolidation.

3. Segmental reporting (continued)

An analysis of acquired and ongoing activities for the year ended 30 June 2004 is as follows:

	Year ended 30 June 2004			Total £'000
	Ongoing £'000	Acquired £'000	Inter group elimination £'000	
Turnover	26,953	486	(486)	26,953
Cost of sales	(21,012)	(467)	486	(20,993)
Gross profit	5,941	19	–	5,960
Distribution costs	(1,300)	–	–	(1,300)
Administrative expenses	(2,209)	(12)	–	(2,221)
Operating profit	2,432	7	–	2,439
Net interest	14	–	–	14
Profit before tax	2,446	7	–	2,453

4. Net interest payable/(receivable)

	Year ended 30 June		
	2002 £'000	2003 £'000	2004 £'000
Interest payable on bank loans and overdrafts	57	39	6
Interest receivable on cash balances	–	(6)	(20)
Net interest payable/(receivable)	57	33	(14)

5. Profit on ordinary activities before taxation

	Year ended 30 June		
	2002 £'000	2003 £'000	2004 £'000
Profit before taxation is stated after charging/(crediting):			
Staff costs (note 19)	2,052	3,003	3,617
Depreciation of tangible fixed assets (all owned)	204	268	277
Amortisation of goodwill	–	13	52
Profit on disposal of fixed assets	(1)	(2)	–
Hire of machinery and equipment	–	2	4
Other operating lease rentals (properties)	109	172	232
Management fees raised by the European subsidiaries on non mobile phone businesses of SEG	–	(79)	(69)
Management fees charged by SEG	240	302	335
Net exchange losses	8	54	43

Audit fees and other fees paid to PricewaterhouseCoopers LLP in the United Kingdom were as follows:

	Year ended 30 June		
	2002 £'000	2003 £'000	2004 £'000
Audit fees and expenses	28	26	28
Non-audit fees and expenses	2	–	–
	30	26	28

6. Tax on profit on ordinary activities

	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Analysis of charge in period</i>			
United Kingdom			
Corporation tax at 30%	573	683	783
Foreign tax			
Corporation taxes	–	(13)	20
Total current tax	<u>573</u>	<u>670</u>	<u>803</u>
Deferred tax			
Total deferred tax	–	–	–
Tax on profit on ordinary activities	<u>573</u>	<u>670</u>	<u>803</u>

The current tax for the periods presented varied from the standard rate of corporation tax in the United Kingdom as explained below:

	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit on ordinary activities before tax	<u>1,796</u>	<u>2,143</u>	<u>2,453</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	539	643	736
Effects of:			
Adjustment in respect of foreign tax rates	–	(3)	(4)
Expenses not deductible for tax purposes	34	29	64
Movement in deferred tax asset not recognised	–	1	7
Current tax charge for period	<u>573</u>	<u>670</u>	<u>803</u>

The Fonebak business has a potential deferred tax asset of £52,000 at 30 June 2004 (£45,000 at 30 June 2003; £44,000 at 30 June 2002) arising as a result of depreciation exceeding capital allowances, which has not been recognised in Combined Financial Information on the grounds that its recoverability is not sufficiently certain in view of the reorganisation that took place on 15 September 2004.

7. Earnings per share

Earnings per share information has not been presented given the changes in the capital structure and financing arrangements that have taken place since the periods presented.

8. Intangible fixed assets

	<i>Goodwill</i> <i>£'000</i>
Cost	
At 1 July 2001 and 30 June 2002	–
Additions (note 17)	27
At 30 June 2003	27
Additions (note 17)	650
At 30 June 2004	677
Amortisation	
At 1 July 2001 and 30 June 2002	–
Charge for the year	13
At 30 June 2003	13
Charge for the year	52
At 30 June 2004	65
Net book amount	
At 30 June 2002	–
At 30 June 2003	14
At 30 June 2004	612

Goodwill arising on the acquisitions of Shields Environmental SARL and Shields Environmental GmbH, totalling £10,000, was written off following the acquisitions as the directors of SEG considered it to be impaired. The £17,000 of goodwill arising on the acquisition of Shields Environmental SA is being amortised on a straight-line basis over 5 years and that in respect of the acquisition of Fonebak Servicii s.r.l. on a straight-line basis over 10 years. These periods are the periods over which the directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets.

9. Tangible fixed assets

	<i>Leasehold improvements</i> £'000	<i>Plant and equipment</i> £'000	<i>Motor vehicles</i> £'000	<i>Computer hardware & software</i> £'000	<i>Total</i> £'000
Cost					
At 1 July 2001	125	224	100	70	519
Additions at cost	49	104	20	193	366
Disposals	–	(51)	(16)	–	(67)
At 30 June 2002	174	277	104	263	818
Exchange adjustments	–	4	4	–	8
Additions at cost	–	85	13	221	319
Acquisitions	–	2	18	–	20
Disposals	–	(3)	(20)	(100)	(123)
At 30 June 2003	174	365	119	384	1,042
Exchange adjustments	–	(3)	(1)	–	(4)
Additions at cost	75	133	37	115	360
Acquisitions	–	11	–	–	11
Disposals	–	–	(13)	(11)	(24)
At 30 June 2004	249	506	142	488	1,385
Accumulated depreciation					
At 1 July 2001	64	47	54	–	165
Charge for the year	27	94	20	63	204
Disposals	–	(50)	(14)	–	(64)
At 30 June 2002	91	91	60	63	305
Exchange adjustments	–	2	3	–	5
Charge for the year	32	90	22	124	268
Disposals	–	(3)	(7)	(35)	(45)
At 30 June 2003	123	180	78	152	533
Exchange adjustments	–	(1)	(1)	–	(2)
Charge for the year	29	84	26	138	277
Disposals	–	–	(3)	(1)	(4)
At 30 June 2004	152	263	100	289	804
Net book amount					
At 30 June 2002	83	186	44	200	513
At 30 June 2003	51	185	41	232	509
At 30 June 2004	97	243	42	199	581

No assets are held under finance leases.

10. Stocks

	<i>As at 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Raw materials and goods held for resale	<u>1,651</u>	<u>3,335</u>	<u>3,589</u>

11. Debtors

	<i>As at 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Amounts falling due within one year:			
Trade debtors	1,018	755	788
Other debtors (see below)	–	15	633
Prepayments and accrued income	<u>1,564</u>	<u>703</u>	<u>385</u>
	<u>2,582</u>	<u>1,473</u>	<u>1,806</u>

Other debtors at 30 June 2004 principally consisted of value added tax recoverable.

12. Creditors – Amounts falling due within one year

	<i>As at 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank and other borrowings (note 13)	–	513	509
Loan note related to acquisition (see below)	–	–	162
Trade creditors	1,322	227	758
Corporation tax	393	424	601
Other tax and social security payable	56	83	95
Other creditors	–	8	97
Accruals and deferred income	<u>1,590</u>	<u>2,019</u>	<u>3,036</u>
	<u>3,361</u>	<u>3,274</u>	<u>5,258</u>

SEG issued two loan notes for £101,000 and £61,000 on 19 September 2003 and 22 March 2004, respectively, under a Loan Note Instrument related to the acquisition of Fonebak Servicii s.r.l. (see note 17). These loan notes are redeemable, between 7 months after their date of issue and 19 January 2005, and carry interest at LIBOR plus 0.25 per cent., and are guaranteed (as to principal only) by The Governor and Company of the Bank of Scotland. Shields Environmental Group plc has issued a counter indemnity in respect of this guarantee.

13. Bank and other borrowings due within one year

	<i>As at 30 June</i>		
	2002 £'000	2003 £'000	2004 £'000
Bank loans and overdrafts due within one year or on demand:			
Secured bank loans	–	500	500
Unsecured overdrafts	–	13	9
	<u>–</u>	<u>513</u>	<u>509</u>

The secured bank loans and overdrafts are denominated in Sterling and bear interest at LIBOR plus 2 per cent. The unsecured amounts are denominated in Euros and bear interest based on the foreign equivalent to LIBOR appropriate to the country in which the borrowing is incurred. The secured bank loans and overdrafts are secured both by floating charges over the assets of the Fonebak business and by fixed and floating charges over the assets of the SEG.

14. Financial instruments

Throughout the three years ended 30 June 2004, the financial risk management of the Fonebak business has been controlled by SEG and has been coordinated with the overall risk management of SEG.

The Fonebak business' financial instruments comprise cash, overdrafts, bank loans, various other debtor and creditor balances that arise from its operations, provisions for liabilities and charges and amounts loaned to and borrowed from other SEG companies. Amounts loaned to or borrowed from other SEG companies, are set by SEG. Neither SEG, nor the Fonebak business, enters into derivative contracts.

The main financial risks arising from the Fonebak business' financial instruments are interest rate risk, liquidity risk and foreign currency risk. The directors review and agree policies for managing each of these risks.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

Interest rate risk and currency profile of financial liabilities

The interest rate risk profile of the Fonebak business' financial liabilities for the period covered by the Combined Financial Information was as follows:

Currency	<i>Floating rate financial liabilities</i>	<i>Non interest bearing financial liabilities</i>	<i>Total</i>
	£'000	£'000	£'000
Sterling	–	–	–
Euro	–	–	–
At 30 June 2002	<u>–</u>	<u>–</u>	<u>–</u>
Sterling	500	–	500
Euro	13	–	13
At 30 June 2003	<u>513</u>	<u>–</u>	<u>513</u>
Sterling	662	175	837
Euro	9	–	9
At 30 June 2004	<u>671</u>	<u>175</u>	<u>846</u>

14. Financial instruments (continued)

All of the Fonebak business' creditors falling due within one year (other than bank and other borrowings and the loan note related to the acquisition of Fonebak Servicii s.r.l.) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

Interest rate risk and currency profile of financial assets

The interest rate risk profile of the Fonebak business' financial assets for the period covered by the Combined Financial Information was as follows:

<i>Currency</i>	<i>Cash at bank and in hand £'000</i>
Sterling	1
Euro	–
At 30 June 2002	1
Sterling	398
Euro	128
At 30 June 2003	526
Sterling	2,951
Euro	178
At 30 June 2004	3,129

All cash at bank and in hand earns interest at floating rates, which are based on relevant national LIBID equivalents or government bond rates.

Maturity profile of financial liabilities

With the exception of a provision, at 30 June 2004, for contingent consideration of £175,000, all the Fonebak business' financial liabilities were due within one year at 30 June 2002, 2003 and 2004. The provision for deferred contingent consideration becomes payable on a sale or flotation of the Fonebak business (see notes 15 and 17).

Undrawn committed borrowing facilities

The entities and unincorporated division forming the Fonebak business had no undrawn committed borrowing facilities available during the period covered by the Combined Financial Information. However, the Fonebak business was able to obtain the benefit of facilities obtained by SEG in April 2003, which totalled £5.0 million. At 30 June 2003 and 30 June 2004 there were undrawn committed borrowing facilities under this arrangement which the SEG group could have drawn on amounting to £3.5 million and £2.5 million, respectively.

Fair values of financial assets and financial liabilities

There were no differences between the book values and the fair values of the the Fonebak business' financial assets and financial liabilities at 30 June 2002, 2003, 2004. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values are used to determine fair values. Where market values are not available, fair values are calculated by discounting expected cash flows at prevailing interest and exchange rates.

The Fonebak business' financial assets and liabilities bear interest at floating rates and are relatively short term in nature and in the opinion of the directors the book values of the assets and liabilities equate to fair values.

14. Financial instruments (continued)

Currency exposures

The table below shows the extent to which the Fonebak business has monetary assets and liabilities in currencies other than the local currency of the entity or division in which they are recorded. Foreign exchange differences on the retranslation of these assets and liabilities are taken to the profit and loss account of the Fonebak business.

	<i>Net foreign currency monetary assets/(liabilities)</i>			
	<i>Sterling</i>	<i>US Dollars</i>	<i>Euro</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Functional currency of group operation:				
Sterling	–	1	(548)	(547)
Euro	–	–	–	–
At 30 June 2002	<u>–</u>	<u>1</u>	<u>(548)</u>	<u>(547)</u>
Functional currency of group operation:				
Sterling	–	20	(7)	13
Euro	–	–	–	–
At 30 June 2003	<u>–</u>	<u>20</u>	<u>(7)</u>	<u>13</u>
Functional currency of group operation:				
Sterling	–	340	(210)	130
Euro	–	–	–	–
At 30 June 2004	<u>–</u>	<u>340</u>	<u>(210)</u>	<u>130</u>

Hedges

The Fonebak business' policy during the period covered by the Combined Financial Information was not to use derivative contracts (including forward foreign exchange contracts) and as such had none outstanding at 30 June 2002, 2003 or 2004.

15. Provisions for liabilities and charges

Contingent consideration

	<i>Contingent consideration</i>
	<i>£'000</i>
At 1 July 2001, 30 June 2002 and 30 June 2003	–
On acquisition (note 17)	<u>175</u>
At 30 June 2004	<u>175</u>

The deferred contingent consideration represents the directors' best estimate of additional consideration payable for the acquisition of Fonebak Servicii s.r.l. The ultimate amount payable is dependent upon certain events (see note 17).

Deferred tax

No deferred tax balances have been recognised as of 30 June 2004 (nil at 30 June 2002 and 2003).

As referred to in note 6, the Fonebak business has a deferred tax asset of £52,000 at 30 June 2004 (£45,000 at 30 June 2003; £44,000 at 30 June 2002) arising as a result of depreciation exceeding capital allowances, which has not been recognised in the Combined Financial Information on the grounds that its recoverability is not sufficiently certain in view of the group reorganisation, referred to in note 24, that took place on 15 September 2004.

15. Provisions for liabilities and charges (continued)

As referred to in note 2, the principal element of the tax charge in the Combined Financial Information relates to the activities of MPD. The MPD tax charge in the Combined Financial Information has been determined by the preparation of a tax computation for MPD as if it were a stand alone corporate entity, including the directors' best estimate of the split of the tax written down value of the assets of SE between MPD and the remaining SE business. This split will not be finalised until the tax computations for both SE and Fonebak plc relating to the year ending 30 June 2005 are submitted and agreed by the Inland Revenue.

16. Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Continuing operations			
Operating profit	1,853	2,176	2,439
Depreciation charge	204	268	277
Goodwill amortisation	–	13	52
Increase in stocks	(1,040)	(1,684)	(252)
Decrease/(increase) in debtors	593	1,150	(310)
Increase/(decrease) in creditors	1,450	(643)	1,632
Profit on disposal of fixed assets	(1)	(2)	–
Total net cash inflow from operating activities	3,059	1,278	3,838

17. Acquisitions

Year ended 30 June 2003

Shields Environmental SA (formerly Dumeg SA)

SEG acquired 100 per cent. of the share capital of Shields Environmental SA (formerly Dumeg SA), a Belgian company, with effect from 1 July 2002 for cash consideration of €138,000 (£107,000). In the year ended 30 June 2002, Dumeg SA reported a profit after taxation of €118,000 (£91,000).

Shields Environmental SARL

Shields Environmental SARL, a French company, was acquired by SEG on 11 November 2002 with €7,500 (£5,000) share capital that was subscribed for in cash. Costs of £7,000 were incurred in establishing the company, which were initially recognised as goodwill and then written off as the directors considered them to be impaired.

Shields Environmental GmbH

Shields Environmental GmbH, a German company, was dormant with €25,500 (£18,000) of share capital that had been subscribed for in cash. It was acquired by SEG on 12 June 2003 for €28,500 (£21,000), and the goodwill created on acquisition of £3,000 was immediately written off as the directors considered it to be impaired.

17. Acquisitions (continued)

All of the above have been accounted for using acquisition accounting, and no adjustments were required to the book values of the assets and liabilities acquired in order to present them at their fair values or to align the acquired companies' accounting policies with those of the Fonebak business. The table below sets out the fair values of the assets and liabilities acquired and the consideration given for Shields Environmental SA, Shields Environmental SARL, and Shields Environmental GmbH:

Book values and fair values

	<i>Shields Environmental SA £'000</i>	<i>Shields Environmental SARL £'000</i>	<i>Shields Environmental GmbH £'000</i>	<i>Total £'000</i>
Plant and equipment	2	–	–	2
Motor vehicles	18	–	–	18
Tangible fixed assets	<u>20</u>	<u>–</u>	<u>–</u>	<u>20</u>
Stocks	–	–	–	–
Debtors	30	–	–	30
Creditors	(35)	–	–	(35)
Overdrafts	(18)	–	–	(18)
Cash	93	5	18	116
Net assets acquired	<u>90</u>	<u>5</u>	<u>18</u>	<u>113</u>
Goodwill	17	7	3	27
Consideration (including costs)	<u>107</u>	<u>12</u>	<u>21</u>	<u>140</u>
Consideration satisfied by:				
Cash	<u>107</u>	<u>12</u>	<u>21</u>	<u>140</u>

The book value of the assets and liabilities have been taken from the management accounts of the relevant company at the dates of acquisition and converted into Sterling at the exchange rates on those dates.

Year ended 30 June 2004

Acquisition of Fonebak Servicii s.r.l.

On 19 September 2003, SEG acquired 83.125 per cent. of the share capital of Fonebak Servicii s.r.l., a Romanian registered company that operates a repair facility for mobile phones in Bucharest, for initial consideration of £415,000 (£253,000 in cash and £162,000 by the issue of loan notes, see note 12) and costs of £73,000. The net assets at acquisition were £16,000 before taking account of minority interests of £3,000.

Upon a sale or flotation (“Exit”) of the Fonebak business, the Company is required to acquire (and the vendors required to sell) the remaining minority shareholding, and additional consideration is payable for the acquisition of the original stake (together the “Additional Consideration”), as described below.

The Additional Consideration is the higher of (a) and (b) below:

(a) Percentage Amounts

- (i) if there is an Exit prior to 30 June 2005, Additional Consideration will be paid to the vendors of 1 per cent. in aggregate of the fair value of the Fonebak business at that time; (ii) if there is an Exit after 30 June 2005 but prior to 30 June 2006, Additional Consideration will be paid to the vendors of 2 per cent. in aggregate of the fair value of the Fonebak business at that time provided certain performance targets have been met; or (iii) if there is an Exit after 30 June 2006, Additional Consideration will be paid to the vendors of 3 per cent. in aggregate of the fair value of the Fonebak business at that time provided certain performance targets have been met.

17. Acquisitions (continued)

(b) Flat Sums

(i) if the Exit date had been prior to 30 June 2004, then Additional Consideration of £231,000, in aggregate, would have been paid to the vendors; (ii) if the Exit date is after 30 June 2004 but prior to 30 June 2005, then Additional Consideration of £538,000, in aggregate, will be paid to the vendors; or (iii) if the Exit date is after 30 June 2005 then Additional Consideration of £846,000 in aggregate will be paid to the vendors.

Fonebak Servicii s.r.l. reported the following results for the pre-acquisition and post-acquisition periods:

	<i>Pre-acquisition 1 January 2003 to 19 September 2003 £'000</i>	<i>Post-acquisition 20 September 2003 to 30 June 2004 £'000</i>
Turnover	213	486
Cost of sales	(192)	(467)
Gross profit	21	19
Sales, marketing and distribution costs	–	–
Administrative expenses	(3)	(12)
Profit before tax	18	7
Tax	(2)	(7)
Profit after tax	16	–

Materially all of the turnover of Fonebak Servicii s.r.l. in both the period prior to acquisition and in the period post-acquisition was with MPD. Accordingly, the turnover in the post-acquisition period has been eliminated on consolidation.

Fonebak Servicii s.r.l. was incorporated on 27 November 2002 and recorded a nil result for the period to 31 December 2002.

The directors' best estimate of the total Additional Consideration payable is £538,000. One of the four vendors (who is not a minority shareholder) has the right to be paid out his proportionate amount of the Flat Sum on 19 October 2006 if there has not been an Exit by 30 June 2006, whereas the other three vendors (who are minority shareholders) have no such right. Accordingly, the Additional Consideration payable to the vendor (who is not a minority shareholder) has been treated as deferred contingent consideration, in respect of the acquisition of the original 83.125 per cent. stake, and is recorded in provisions at the directors' best estimate of the amount payable, of £175,000. The Additional Consideration payable to the other three vendors falls to be treated as consideration for acquiring their minority interests at the point this happens in the future and is therefore not recorded as a liability in this Combined Financial Information. The directors' best estimate of the amount of this portion of the Additional Consideration is £363,000.

17. Acquisitions (continued)

The acquisition of Fonebak Servicii s.r.l. has been accounted for using acquisition accounting and no adjustments were required to the book values of the assets and liabilities acquired in order to present them at their fair values or to align the acquired companies' accounting policies with those of the Fonebak business. The table below sets out the fair values of the assets and liabilities acquired and the consideration given for Fonebak Servicii s.r.l.:

Book values and fair values

	<i>Fonebak Servicii s.r.l. £'000</i>
Tangible fixed assets – plant and equipment	11
Stock	2
Debtors	17
Creditors	(17)
Cash	3
Net assets acquired	16
Less: minority interests	(3)
	13
Goodwill	650
Consideration	663
Consideration satisfied by:	
Cash paid to vendors	253
Costs associated with acquisition	73
Loan notes (note 12)	162
Contingent consideration (note 15)	175
	663

The book values of the assets and liabilities have been taken from the management accounts of Fonebak Servicii s.r.l. at the date of acquisition and converted into Sterling at the exchange rate on that date.

18. Analysis of net cash

	<i>Cash in hand and at bank £'000</i>	<i>Overdrafts £'000</i>	<i>Total £'000</i>	<i>Debt due within one year £'000</i>	<i>Net cash £'000</i>
At 1 July 2001	2	–	2	–	2
Cashflow	(1)	–	(1)	–	(1)
At 30 June 2002	1	–	1	–	1
Cashflow	525	(13)	512	(500)	12
At 30 June 2003	526	(13)	513	(500)	13
Cashflow	2,603	4	2,607	–	2,607
Other non-cash charges	–	–	–	(162)	(162)
At 30 June 2004	3,129	(9)	3,120	(662)	2,458

The other non-cash changes relate to the loan notes issued, totalling £162,000, as part of the consideration for the acquisition of Fonebak Servicii s.r.l. (see notes 12 and 17).

19. Employees and directors

	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Staff costs for the Fonebak business during the period</i>			
<i>(including the directors)</i>			
Wages and salaries	1,878	2,754	3,206
Social security costs	166	237	385
Other pension costs	8	12	26
	<u>2,052</u>	<u>3,003</u>	<u>3,617</u>
	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Average monthly number of people			
(including directors) employed:			
Production	59	74	148
Sales and business development	7	10	14
Administration	12	14	18
	<u>78</u>	<u>98</u>	<u>180</u>

The Fonebak business offered a defined contribution pension arrangement to certain employees. Payments to defined contribution pension schemes are expensed as incurred. The Fonebak business has no other pension arrangements.

Directors' emoluments

	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Aggregate emoluments	314	426	551
Company contributions to money purchase pension schemes	10	17	31
	<u>324</u>	<u>443</u>	<u>582</u>

The above amounts represent the total remuneration received by the Directors from SEG and its subsidiaries. Appropriate portions of the Directors' emoluments have been charged to administrative expenses, in the Combined Financial Information, representing the proportion of time each Director spent on the activities of the Fonebak business relative to the total time they spent on the activities of SEG and its subsidiaries.

The number of directors to whom retirement benefits were accruing under defined contribution pension schemes was two (2002 and 2003: one).

19. Employees and directors (continued)

Analysis of remuneration by Director

The following tables show analyses of the remuneration of the individual Directors during the three years ended 30 June 2004, being the total remuneration they received from SEG and its subsidiaries.

<i>GS Shields</i>	<i>Salary and fees £'000</i>	<i>Annual bonus £'000</i>	<i>Benefits £'000</i>	<i>Total £'000</i>
Year ended:				
30 June 2002	60	–	–	60
30 June 2003	70	–	–	70
30 June 2004	77	–	–	77

Gordon Shields was a director for the entire period of this Combined Financial Information.

<i>SA Shields</i>	<i>Salary and fees £'000</i>	<i>Annual bonus £'000</i>	<i>Benefits £'000</i>	<i>Total £'000</i>
Year ended:				
30 June 2002	80	85	12	177
30 June 2003	88	97	8	193
30 June 2004	110	101	–	211

Stephen Shields was a director for the entire period of this Combined Financial Information.

<i>AR Crocker</i>	<i>Salary and fees £'000</i>	<i>Annual bonus £'000</i>	<i>Benefits £'000</i>	<i>Total £'000</i>
Year ended:				
30 June 2002	51	20	6	77
30 June 2003	87	40	14	141
30 June 2004	109	40	14	163

Arther Crocker was appointed a director on 10 January 2002, and the above analysis only includes his emoluments since that date. In addition to the above amounts, SEG made the following contributions to Mr Crocker's money purchase pension scheme: £10,000 in 2002, £17,000 in 2003 and £21,000 in 2004.

<i>K Woodward</i>	<i>Salary and fees £'000</i>	<i>Annual bonus £'000</i>	<i>Benefits £'000</i>	<i>Total £'000</i>
Year ended:				
30 June 2002	–	–	–	–
30 June 2003	22	–	–	22
30 June 2004	100	–	–	100

Kathy Woodward was appointed a director on 24 February 2003, and the above analysis only includes her emoluments since that date. In addition to the above amounts, SEG contributed £10,000 to Kathy Woodward's money purchase pension scheme during the year ended 30 June 2004 (2002 and 2003: nil).

Benefits in kind in the above tables include the provision of a company car, fuel, and medical and life insurances. No director waived any emoluments during any of the three years ended 30 June 2004.

19. Employees and directors (continued)

Interest in share options over the shares of SEG

Certain directors were granted options over the shares of SEG. The options were granted under the Inland Revenue Enterprise Management Incentives scheme for no consideration at an exercise price of £1 per share, and are conditional upon the grantees achieving performance targets over a period of three years. The agreed valuation of the shares at date of grant was £30 per share. The options are exercisable in the event of the sale of a majority of the shares of SEG or the listing of the shares of SEG on a recognised investment exchange. The SEG board may also permit the exercise of the options at its discretion.

All of the options referred to in this note were either exercised or lapsed on the group reorganisation, on 15 September 2004, referred to in note 24.

In accordance with UITF 17 'Employee share schemes' the value of the discount of £29 per share was charged by SEG against profit on a straight-line basis over three years to the earliest exercise date, being the period over which performance is assessed. The Combined Financial Information includes allocations of these charges through the SEG management recharges (see note 2).

Details of options held by directors are set out below:

Year ended 30 June 2002

<i>Name</i>	<i>Date of grant</i>	<i>Earliest exercise date*</i>	<i>Expiry date</i>	<i>Exercise price (£)</i>	<i>Number at 1 July 2001 (£1 shares)</i>	<i>Granted in year</i>	<i>Exercised in year</i>	<i>Lapsed in year</i>	<i>Number at 30 June 2002 (£1 shares)</i>
Gordon Shields	–	–	–	–	–	–	–	–	–
Stephen Shields	–	–	–	–	–	–	–	–	–
Arthur Crocker	28 March 2002	28 March 2005	28 March 2012	£1.00	–	1,440	–	–	1,440
Kathy Woodward	–	–	–	–	–	–	–	–	–

Year ended 30 June 2003

<i>Name</i>	<i>Date of grant</i>	<i>Earliest exercise date*</i>	<i>Expiry date</i>	<i>Exercise price (£)</i>	<i>Number at 1 July 2002 (£1 shares)</i>	<i>Granted in year</i>	<i>Exercised in year</i>	<i>Lapsed in year</i>	<i>Number at 30 June 2003 (£1 shares)</i>
Gordon Shields	–	–	–	–	–	–	–	–	–
Stephen Shields	–	–	–	–	–	–	–	–	–
Arthur Crocker	28 March 2002	28 March 2005	28 March 2012	£1.00	1,440	–	–	–	1,440
Kathy Woodward	31 January 2003	31 January 2006	31 January 2013	£1.00	–	1,440	–	–	1,440

Year ended 30 June 2004

<i>Name</i>	<i>Date of grant</i>	<i>Earliest exercise date*</i>	<i>Expiry date</i>	<i>Exercise price (£)</i>	<i>Number at 1 July 2003 (£1 shares)</i>	<i>Granted in year</i>	<i>Exercised in year</i>	<i>Lapsed in year</i>	<i>Number at 30 June 2004 (£1 shares)</i>
Gordon Shields	–	–	–	–	–	–	–	–	–
Stephen Shields	–	–	–	–	–	–	–	–	–
Arthur Crocker	28 March 2002	28 March 2005	28 March 2012	£1.00	1,440	–	–	–	1,440
Kathy Woodward	31 January 2003	31 January 2006	31 January 2013	£1.00	1,440	–	–	–	1,440

* The SEG board may permit the exercise of the options at earlier dates, at its discretion.

There were no other directors' interests in options over the shares of SEG at 30 June 2002, 30 June 2003 or 30 June 2004.

19. Employees and directors (continued)

Interest in shares of SEG

The interests of the directors in shares of SEG and other group members were as follows:

<i>Shields Environmental Group plc – ordinary shares of £1</i>	<i>As at 30 June</i>		
	<i>2002</i> <i>Number</i>	<i>2003</i> <i>Number</i>	<i>2004</i> <i>Number</i>
Gordon Shields	42,500	42,500	42,500
Stephen Shields	5,000	5,000	5,000
Arthur Crocker	–	–	–
Kathy Woodward	–	–	–
	<u> </u>	<u> </u>	<u> </u>

All directors' interests are beneficially held. There has been no change in the interests set out above between 30 June 2004 and 22 March 2005, except as set out in note 24. No interests were held in the shares of any other company in the Shields Environmental Group plc group.

20. Operating lease commitments

As at 30 June 2002, 2003 and 2004 the Fonebak business had annual commitments under non-cancellable operating lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years, as follows:

	<i>As at 30 June</i>					
	<i>Vehicles, plant and equipment</i>		<i>Vehicles, plant and equipment</i>		<i>Vehicles, plant and equipment</i>	
	<i>Property</i> <i>2002</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>	<i>Property</i> <i>2003</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>	<i>Property</i> <i>2004</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
<i>Lease expiry:</i>						
Within one year	–	–	194	–	285	–
Within two to five years	128	–	–	–	168	–
	<u>128</u>	<u>–</u>	<u>194</u>	<u>–</u>	<u>453</u>	<u>–</u>

21. Contingent liabilities

SEG has issued a counter indemnity to its bankers in respect of two bonds issued in the normal course of business relating to the activities of the Fonebak business for a total of £70,000 at 30 June 2004 (30 June 2003 and 2002: £nil), and a further counter-indemnity to its bankers at 30 June 2004 for £162,000 (30 June 2003 and 2002: £nil), in respect of a bank guarantee backing the loan notes, set out in note 12, all of which were guaranteed by SEG.

22. Capital and other financial commitments

The Fonebak business is committed to purchasing all the remaining shares of Fonebak Servicii s.r.l. that it does not currently control upon a sale or flotation of the Fonebak business. Further details of this commitment are set out in note 17.

As at 30 June 2004 the Fonebak business had not entered into any contracts for future capital expenditure that are not already provided for in the balance sheet (30 June 2002 and 2003: nil).

23. Related party transactions

The Fonebak business has carried out a number of transactions with SEG and its remaining subsidiaries in the normal course of business. As more fully explained in note 24, the Fonebak business has been demerged from the SEG group via a group reorganisation on 15 September 2004. The controlling shareholder of SEG has remained Mr GS Shields. The controlling shareholder of Fonebak plc is also Mr GS Shields. The nature of the transactions with SEG and its remaining subsidiaries and their total value is shown below:

	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Management fee from SEG	240	302	335
Allocated overhead from SE*	600	649	131
Management fees raised by the Fonebak business'			
European subsidiaries on the non mobile			
phone businesses of SEG	–	(79)	(69)

* The overhead allocated by SE to MPD was not separately identified in the period from 1 July 2001 to 30 September 2002. Allocations of overhead ceased on September 2003, after which all overheads were specifically incurred by either MPD or the remaining SE business, and charged accordingly. The directors' estimate that the allocated overhead in the period 1 July 2001 to 30 September 2002 borne by MPD was approximately £50,000 per month. The amounts stated above are stated on this basis.

The net funding account balances provided to the Fonebak business by SEG and its remaining subsidiaries were:

	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Net funding accounts at beginning of year	2,496	1,386	2,583
Recognised gains for the year	1,223	1,486	1,655
Movement in net funding balances	(2,333)	(289)	43
Net funding accounts of end of year	<u>1,386</u>	<u>2,583</u>	<u>4,281</u>

The funding account asset balances are non interest bearing.

SEG had the following balances and transactions with Mr GS Shields (its controlling shareholder):

	<i>Year ended 30 June</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Amount owed to Mr GS Shields at beginning of period	1,501	72	5
(Repayment of)/increase in loan	(1,429)	(67)	255
Amount owed to Mr GS Shields at period end	<u>72</u>	<u>5</u>	<u>260</u>

A loan of £1,500,000 was made by Mr GS Shields to SEG during 2001 under the following terms: 6 month maturity, repayable on demand, secured by way of a floating charge over SEG's assets and carrying interest at base rate plus 2 per cent. £1,400,000 was repaid on 14 January 2002, and further sundry small amounts were repaid during the year to 30 June 2002, reducing the balance to £72,386 at 30 June 2002. Further small amounts totalling £67,344 were repaid during the following year, reducing the balance to £5,042 at 30 June 2003. However, Mr GS Shields lent a further £254,478 to SEG during the year to 30 June 2004, none of which is interest bearing. Also included within accruals at 30 June 2003 was a further amount due to Mr GS Shields in respect of interest of £57,391 arising on the loan detailed above. The interest bearing portion was fully repaid during the year to 30 June 2003 and the interest owing to Mr GS Shields was paid to him on 5 August 2003.

The above transactions with Mr GS Shields are not recorded in the Combined Financial Information.

24. Post balance sheet events

SEG group reorganisation

The Company was incorporated as Broomco (3469) Limited on 27 April 2004 and changed its name to Fonebak Group Limited on 7 September 2004. It was renamed Fonebak Limited on 26 October 2004, and was re-registered as a public limited company on 13 January 2005.

On 15 September 2004, SEG underwent a group reorganisation, the effect of which was to fully separate the Fonebak business and place it in a new and entirely separate legal entity, Fonebak plc. The Company's majority shareholder remains Gordon Shields. As part of the group reorganisation, Bank of Scotland extended financing facilities to Fonebak plc and acquired a 5 per cent. equity stake in the Company. The management team of the Company remains the same as it was for the Fonebak business within the SEG group.

Detailed information on the reorganisation relating to the Fonebak business

On 15 September 2004, a group reorganisation to separate the mobile phone business of SEG and place it in a new legal entity was effected by means of a Members Voluntary Liquidation under Section 110 of the Insolvency Act as follows:

- all of SEG's option holders exercised their options, either partially or in full, and any unexercised options lapsed at that point;
- all of SEG's shares were acquired by Broomco (3470) Limited ("Broomco"), a new company formed for the purpose of the group reorganisation, in a share for share swap whereby the holder of each £1 share in SEG received 100 one pence shares in Broomco;
- the Fonebak business of SEG (which consisted of an unincorporated division of SE and four European subsidiaries of SEG) was then sold at fair value to Broomco on the same date;
- the Broomco shares were then designated "A" or "B" shares according to an agreement between the shareholders, following which Broomco was placed in Members Voluntary Liquidation, also on 15 September 2004;
- in return for a distribution of the Fonebak business assets by the liquidator to Fonebak plc (a company incorporated as Broomco (3469) Limited), the holders of "A" shares received the same number of shares in Fonebak plc, and in return for a distribution of the Infrastructure assets (being only shares in SEG) by the liquidator to Shields Environmental Group (Holdings) Limited ("SEGH") (a new company formed for the purpose), the holders of "B" shares received the same number of shares in SEGH.

Additionally, on 15 September 2004 SE drew down borrowings totalling £8.9 million, comprising a term loan of £6.4 million and an overdraft of £2.5 million (which converted into a subordinated secured loan note of £2.5 million upon completion of the reorganisation) from Bank of Scotland plc which was used partly to finance the working capital requirements of the Fonebak business, partly to finance the working capital requirements of SEG excluding the Fonebak business, partly to pay the costs associated with the reorganisation and to part finance the payment of a dividend, of £5.9 million, to the then shareholders of SEG. The obligation to repay the £8.9 million debt has been assumed by the Company as part of the reorganisation and Bank of Scotland subscribed for a 5 per cent. equity stake in the Company for a consideration of £100,000 (a discount of £485,000 on the Directors' estimate of its fair value) as part of the financing arrangements, and charged a fee for the transaction of £300,000.

The discount of £485,000 on issue of the 5 per cent. equity stake to Bank of Scotland plc, the transaction fee of £300,000 and the Directors' estimate of the redemption premium payable on the floating rate subordinated secured loan note (current estimate: £600,000) will be charged to the Company's profit and loss account during the year ending 30 June 2005.

24. Post balance sheet events (continued)

The £8.9 million of loans comprise the following:

- (a) a term loan of £6.4 million, which carries interest at LIBOR plus 3 per cent., and is repayable in quarterly instalments, beginning on 31 December 2004, as follows:
- 31 December 2004, 31 March 2005, 30 June 2005 and 30 September 2005: £250,000 per quarter;
 - 31 December 2005, 31 March 2006, 30 June 2006 and 30 September 2006: £400,000 per quarter;
 - 31 December 2006, 31 March 2007, 30 June 2007 and 30 September 2007: £450,000 per quarter;
 - 31 December 2007, 31 March 2008, 30 June 2008 and 30 September 2008: £500,000 per quarter.

The repayment of the term loan is mandatory upon a sale, a listing or a change of control of the Fonebak business.

- (b) a floating rate subordinated secured loan note for £2.5 million, which carries interest at LIBOR plus 4 per cent., and is repayable on 15 September 2009 together with a redemption premium of 80 per cent. of the amount redeemed, except in circumstances where early redemption is mandatory due to a listing or change of control of the Fonebak business, when the redemption premium payable is calculated as follows:
- repayment prior to 15 March 2006, a premium of 24 per cent. of the amount redeemed;
 - repayment after 15 March 2006 but prior to 15 September 2006, a premium of 40 per cent. of the amount redeemed;
 - repayment after 15 September 2006 but prior to 31 March 2007, a premium of 60 per cent. of the amount redeemed; or
 - repayment after 31 March 2007, a premium of 80 per cent. of the amount redeemed.

Redemption of the subordinated secured loan note 2009 is mandatory upon a sale, a listing, a change of control or a refinancing of the Fonebak business.

In addition to the above loans, totalling £8.9 million, from 15 September 2004 the Fonebak business has a working capital facility of £3.5 million, carrying interest at LIBOR plus 2.5 per cent., which is committed until 14 September 2006.

As the transfer of the Fonebak businesses took place at fair value, a significant amount of goodwill (approximately £17 million) was recorded upon the reorganisation. It is the present intention of the Directors to amortise this goodwill over a 20 year period.

Following completion of the reorganisation, the issued share capital of Fonebak plc was 3,545,000 ordinary shares of 2 pence each, and the shareholdings of the Directors of the Company were:

	<i>Number of shares</i>
GS Shields	2,340,000
SA Shields	360,000
AR Crocker	89,000
K Woodward	180,000

In addition, during the reorganisation Mr Crocker was issued with options over 55,000 shares of Fonebak plc at an exercise price of 2 pence, which do not have performance criteria attaching to them.

Loan notes of £162,000 issued by Shields Environmental Group and relating to the acquisition of Fonebak Servicii s.r.l. were redeemed in January 2005 in accordance with the terms of their issue (see notes 12 and 17).

On 21 March 2005 the Company's authorised share capital was increased to £800,000. On the same date the Company issued 11,654,995 ordinary shares of two pence each by means of a bonus issue, the bonus issue being 3.2877291961 new shares for every one share in issue at that date. Following the bonus issue the total number of ordinary shares of two pence each in issue was 15,199,995.

On 22 March 2005 the Company agreed new banking facilities, which it is intended will replace its existing facilities on admission of the Company's shares to AIM. These new facilities comprise a term loan of £4.0 million and a working capital facility of £3.5 million.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART IV

UNAUDITED INTERIM RESULTS OF THE GROUP FOR THE PERIOD ENDED 31 DECEMBER 2004

Part IV consists of two sections:

- Section A consists of the unaudited pro forma combined interim financial information of the Fonebak business as at and for the six month period ended 31 December 2004. The Fonebak business comprises the unincorporated division and companies (listed in note 1 to Section A) which following the group reorganisation, which took place on 15 September 2004, were owned by Fonebak plc. The information in Section A is prepared on a basis consistent with the basis of preparation of the Accountants' report on the Fonebak business, set out in Part III of this document, and includes the results of the Fonebak business for the full six month period to 31 December 2004. The unaudited pro forma combined interim financial information has been prepared for illustrative purposes only.
- Section B consists of the unaudited consolidated interim financial information of Fonebak plc for the period from 27 April 2004 (its date of incorporation) to 31 December 2004, prepared in accordance with UK generally accepted accounting principles. Fonebak plc did not trade prior to its acquisition of the Fonebak business, on 15 September 2004. As a result the unaudited consolidated financial information does not include any trading activities prior to this date.

Neither the unaudited pro forma combined interim financial information, nor the unaudited consolidated interim financial information, set out in Part IV of this document constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The unaudited pro forma combined interim financial information and the unaudited consolidated interim financial information included in this part of the document have been approved by the Directors, who are responsible for the contents of the Admission Document dated 24 March 2005 in which this report is included.

SECTION A

Unaudited Pro Forma Combined Interim Financial Information

UNAUDITED PRO FORMA COMBINED PROFIT AND LOSS ACCOUNTS

		<i>Six months ended 31 December 2003 £'000</i>	<i>Six months ended 31 December 2004 £'000</i>
Turnover		12,405	18,245
Cost of sales		(9,761)	(15,231)
Gross profit		2,644	3,014
Distribution costs		(627)	(784)
Administrative expenses		(1,109)	(1,230)
Operating profit			
before goodwill amortisation		926	1,280
Goodwill amortisation		(18)	(280)
Operating profit		908	1,000
Net interest payable		(2)	(179)
Exceptional financing costs	3	–	(1,385)
Total financing costs		(2)	(1,564)
Profit/(loss) on ordinary activities before taxation		906	(564)
Tax on profit/(loss) on ordinary activities		(291)	(104)
Profit/(loss) on ordinary activities after taxation and retained profit/(loss) for the period		615	(668)

All the results stated above derive from continuing operations.

The goodwill amortisation charge and financing costs for the periods up to 15 September 2004 reflect the goodwill, capital structure and financing prior to the group reorganisation that took place on that date (see note 1). These are significantly different from those that have existed since the group reorganisation.

The financial information above may not be representative of future results: for example, the historical capital structure does not reflect the future capital structure. Future interest income and expense, certain operating costs, tax charges and dividends may be significantly different from those that resulted from being part of Shields Environmental Group plc.

There are no differences between the profit/(loss) on ordinary activities before taxation and the retained profit/(loss) for the periods stated above and their historical cost equivalents.

UNAUDITED PRO FORMA COMBINED STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Six months ended 31 December 2003 £'000</i>	<i>Six months ended 31 December 2004 £'000</i>
Profit/(loss) for the period	615	(668)
Exchange adjustments offset in reserves	7	(21)
Total recognised gains/(losses) for the period	<u>622</u>	<u>(689)</u>

UNAUDITED PRO FORMA COMBINED RECONCILIATIONS OF MOVEMENT IN SHIELDS ENVIRONMENTAL GROUP PLC'S NET INVESTMENT IN THE FONEBAK BUSINESS

	<i>Six months ended 31 December 2003 £'000</i>	<i>Six months ended 31 December 2004 £'000</i>
Profit/(loss) for the period	615	(668)
Net movement in funding balances with Shields Environmental Group plc and its remaining subsidiaries	(818)	7,240
Exchange adjustments offset in reserves	7	(21)
Share option scheme	–	75
Net change in Shields Environmental Group plc's net investment in the Fonebak business	<u>(196)</u>	<u>6,626</u>
Opening Shields Environmental Group plc's net investment in the Fonebak business	<u>2,538</u>	<u>4,281</u>
Closing Shields Environmental Group plc's net investment in the Fonebak business	<u>2,342</u>	<u>10,907</u>
Represented by:		
Share capital	–	71
Share premium	–	11,629
Retained losses	–	(793)
Shields Environmental Group plc's net investment in the Fonebak business	<u>2,342</u>	<u>–</u>
	<u>2,342</u>	<u>10,907</u>

UNAUDITED PRO FORMA COMBINED BALANCE SHEETS

	<i>As at</i> <i>31 December</i> <i>2003</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2004</i> <i>£'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>£'000</i>
Fixed assets			
Intangible assets	647	612	17,076
Tangible assets	553	581	617
	<u>1,200</u>	<u>1,193</u>	<u>17,693</u>
Current assets			
Stock	2,416	3,589	2,918
Debtors	1,668	1,806	2,324
Cash at bank and in hand	454	3,129	2,940
	<u>4,538</u>	<u>8,524</u>	<u>8,182</u>
Creditors – amounts falling due within one year	(3,218)	(5,258)	(14,790)
Net current assets/(liabilities)	<u>1,320</u>	<u>3,266</u>	<u>(6,608)</u>
Total assets less current liabilities	2,520	4,459	11,805
Provision for liabilities and charges	(175)	(175)	(175)
Equity minority interests	(3)	(3)	(3)
Net assets	<u>2,342</u>	<u>4,281</u>	<u>10,907</u>
Represented by:			
Called up share capital	–	–	71
Share premium account	–	–	11,629
Profit and loss account	–	–	(793)
Shields Environmental Group plc's net investment in the Fonebak business	2,342	4,281	–
	<u>2,342</u>	<u>4,281</u>	<u>10,907</u>

UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENTS

		<i>Six months ended 31 December 2003 £'000</i>	<i>Six months ended 31 December 2004 £'000</i>
Net cash inflow			
from operating activities	5	<u>1,627</u>	<u>2,776</u>
Returns on investment and servicing of finance			
Interest received		3	44
Interest paid		(5)	(223)
Financing facility fee		–	(300)
Net cash outflow from returns on investments and servicing of finance		<u>(2)</u>	<u>(479)</u>
Taxation		<u>(292)</u>	<u>(721)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(185)	(155)
Sales of tangible fixed assets		9	–
Net cash outflow from capital expenditure and financial investment		<u>(176)</u>	<u>(155)</u>
Acquisitions			
Purchase of subsidiary undertakings		(326)	–
Cash acquired with subsidiaries		3	–
Group reorganisation costs		–	(450)
Net cash outflow from acquisitions		<u>(323)</u>	<u>(450)</u>
Net cash inflow before financing		<u>834</u>	<u>971</u>
Financing			
Increase in share capital		–	150
Increase in borrowings		–	8,400
Net movement in funding balances with Shields Environmental Group plc and its remaining subsidiaries		<u>(903)</u>	<u>(9,707)</u>
Net cash outflow from financing		<u>(903)</u>	<u>(1,157)</u>
Decrease in cash	6	<u>(69)</u>	<u>(186)</u>

**UNAUDITED PRO FORMA RECONCILIATIONS OF COMBINED NET CASH FLOW TO
MOVEMENT IN NET CASH**

		<i>Six months ended 31 December 2003 £'000</i>	<i>Six months ended 31 December 2004 £'000</i>
Net cash at beginning of period		13	2,458
Movement in borrowings		–	(8,400)
Decrease in cash		(69)	(186)
Consideration satisfied by issue of loan notes		(162)	–
Net debt at end of period	6	<u>(218)</u>	<u>(6,128)</u>

NOTES TO THE UNAUDITED PRO FORMA COMBINED INTERIM FINANCIAL INFORMATION

1. Companies and unincorporated division included in the Unaudited Pro forma Combined Interim Financial Information

This Unaudited Pro Forma Combined Interim Financial Information presents the financial record of the Fonebak business for the two six month periods ended 31 December 2003 and 31 December 2004. The following are the unincorporated division and subsidiary undertakings, the results and financial positions of which have been included in the Unaudited Pro Forma Combined Interim Financial Information.

<i>Company</i>	<i>Nature of business</i>	<i>Country of incorporation and/or operation</i>	<i>Effective interest as at</i>	
			<i>31 December 2003</i>	<i>31 December 2004</i>
Mobile Phone Division	Refurbishment and resale of mobile phones, accessories and related services	UK	100%	100%
Shields Environmental SA	Support services for the Fonebak business	Belgium	100%	100%
Shields Environmental SARL	Support services for the Fonebak business	France	100%	100%
Shields Environmental GmbH	Support services for the Fonebak business	Germany	100%	100%
Fonebak Servicii s.r.l.	Repair and refurbishment of mobile phones	Romania	83.125%	83.125%

Prior to the group reorganisation that took place on 15 September 2004 (the “group reorganisation”) the Mobile Phone Division (“MPD”) was the principal division of a UK incorporated company, Shields Environmental plc (“SE”), a subsidiary of Shields Environmental Group plc (“SEG”). The four companies, listed above, were subsidiaries of SEG. The business of MPD was transferred, as a going concern, to the Company on 15 September 2004 during the reorganisation referred to below. In addition, SEG’s interest in the four companies, listed above, were acquired by Fonebak plc as part of the group reorganisation.

As at the date of this report, the unincorporated division and four subsidiaries, listed above, together with Fonebak plc, form the Fonebak business.

83.125 per cent. of the share capital of Fonebak Servicii s.r.l. was acquired by SEG on 19 September 2003 for total consideration of £663,000 (including £175,000 which is payable upon the sale or flotation of the Fonebak business). Upon a sale or flotation of the Fonebak business, the Company is required to acquire the remaining shares of Fonebak Servicii s.r.l. The additional consideration payable is contingent upon certain events. The Directors’ current best estimate of the amount of this consideration is £363,000.

On 15 September 2004, SEG underwent a group reorganisation, the principal effect of which was to create a legal group structure for the Fonebak business, described above, separate from the rest of the SEG group. The reorganisation was effected as follows:

A new holding company, Broomco (3470) Limited (“Broomco”), acquired SEG via a share for share exchange. MPD and the four subsidiaries listed above were then transferred to Broomco at fair value. Broomco was then liquidated by Members Voluntary Liquidation under Section 110 of the Insolvency Act, and MPD and the four subsidiaries (being the entirety of the Mobile Phone Business of SEG) were distributed to a new company, Fonebak Group Limited (Company number 0511820), at fair value. Fonebak Group Limited was originally incorporated as Broomco (3469) Limited and changed its name to Fonebak Group Limited on 7 September 2004. It was renamed Fonebak Limited on 26 October 2004, and was re-registered as a public limited company on 13 January 2005.

Additionally, on 15 September 2004 SE drew down £8.9 million, under loan facilities. The funds raised were used partly to finance the working capital requirements of the Fonebak business, partly to finance the working capital requirements of SEG, excluding the Fonebak business, partly to pay the costs associated

with the group reorganisation and to part finance the payment of a dividend, of £5.9 million, to the then shareholders of SEG. The obligation to repay the £8.9 million loan has been assumed by the Company as part of the reorganisation and the provider of the loan facility subscribed for a 5 per cent. equity stake in the Company at a discount, of £485,000, to the Directors' estimate its fair value, as part of the financing arrangements.

2. Accounting policies

(a) Accounting convention

The Unaudited Pro Forma Combined Interim Financial Information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom, which have been applied on a consistent basis.

(b) Basis of preparation

For the periods prior to the group reorganisation on 15 September 2004, the Unaudited Pro Forma Combined Interim Financial Information of the Fonebak business has been prepared, by carving-out and combining financial information from individual management accounts and accounting records, prepared for SEG consolidation purposes, for the individual companies and businesses that formed the SEG group, adjusting for relevant items previously recorded in the SEG consolidation. For the period subsequent to the group reorganisation the Unaudited Pro Forma Combined Interim Financial Information has been prepared by consolidating the management accounts and accounting records, prepared for consolidation purposes, of the Company and its subsidiaries.

The Unaudited Pro Forma Combined Interim Financial Information contained in this report comprises the combined profit and loss accounts, cash flow statements and balance sheets of the companies and unincorporated division which together comprise the Fonebak business at the date of this report.

The Unaudited Pro Forma Combined Interim Financial Information has been prepared as if the businesses had been owned and controlled by the Company throughout the entire period from 1 July 2003 to 31 December 2004 or from their date of acquisition by SEG, if later.

No undertakings were disposed of during either of the six month periods ended 31 December 2003 and 2004. Internal transactions within the Group are eliminated on combination.

On the acquisition of a company, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses after the date of acquisition are dealt with in the profit and loss account.

The following principles have been adopted for the periods prior to the group reorganisation, on 15 September 2004:

- As part of the SEG group, the Fonebak business incurred certain charges in respect of administration, management and other services including, but not limited to, management information systems, accounting and financial reporting, taxation, cash management, and professional services that were paid for by other SEG companies or divisions. The Fonebak business has been charged costs, recorded in the profit and loss account, by other SEG companies and divisions of SE for some of these services, as set out below. Although these charges are intended broadly to reflect the costs that would apply on an arms' length basis, it is possible that the terms of the relevant transactions would have been different if the transacting partners had not been connected with SEG. As more fully described below, allocations of overhead costs ceased during the year ended 30 June 2004, management fees charged by SEG ceased on the group reorganisation and, from 1 March 2004, the subsidiaries in Belgium, France and Germany have operated only on behalf of the mobile phone business.
- Management charges were raised by SEG to SE. In preparing the Unaudited Combined Financial Information the charges have been allocated on the basis of the Directors' estimate of the

proportion of SEG resources utilised by MPD as in the period from 1 July 2003 to 30 September 2003. After 1 October 2003, management charges were specifically raised by SEG on MPD, based on the Directors' best estimate of the utilisation of SEG resources by MPD, until the date of the group reorganisation (15 September 2004), when they ceased.

- From the date of their acquisition, the French, German and Belgian subsidiaries have acted as agents of SE in Europe and raised intra-group fees to SE in respect of those services. These fees were allocated to SE's divisions according to their utilisation of the resources of each of the subsidiaries. The management fees charged by the European businesses and not borne by MPD have been treated as income within the Unaudited Pro Forma Combined Interim Financial Information.
- MPD also incurred certain overheads that, until October 2003, were shared with the other business operated by SE, and allocated to each of SE's divisions on the basis of the Directors' estimate of the utilisation of the resources that those overheads represented. From October 2003, all overheads of the Fonebak business have been specifically incurred and no allocation has taken place.
- For the periods prior to the group reorganisation, on 15 September 2004, the tax charges in the Unaudited Pro Forma Combined Interim Financial Information have been determined on the basis of the tax charges recorded by SEG companies in their statutory accounts. These tax charges may have been affected by the taxation arrangements within the SEG group, and are not necessarily representative of the tax charges that would have been reported by the Fonebak business as an independent group. In addition, they are not necessarily representative of the tax charges that may arise in the future.
- For the periods prior to the group reorganisation, on 15 September 2004, the principal element of the tax charge in the Unaudited Pro Forma Combined Interim Financial Information relates to the activities of MPD. The MPD tax charge in the Unaudited Pro Forma Combined Interim Financial Information has been determined by the preparation of a tax computation for MPD as if it were a stand alone corporate entity, including the Directors' best estimate of the allocation of the tax written down value of the assets of SE between MPD and the remaining SE business. This allocation will not be finalised until the tax computations for both SE and Fonebak plc relating to the year ending 30 June 2005 are submitted and agreed by the Inland Revenue. Accordingly, the basis of preparation of the MPD tax charge may not be representative of the tax charges that may arise in Fonebak plc in the future.
- The interest income and expenses recorded in the combined profit and loss accounts have been affected by the financing arrangements of the SEG group, and are not necessarily representative of the interest income and expense that would have been reported had the Fonebak business been independent for the entirety of the periods reported. In addition, they are not necessarily representative of the interest income and expenses that may arise in the future. Separate bank accounts were opened for MPD and it began to operate them separately from the remaining SE businesses with effect from 1 July 2003. The interest income and expenses for the two six month periods ended 31 December 2003 and 2004 are those that relate to the Fonebak business' separate bank accounts.
- Prior to 15 September 2004, the Fonebak business has not formed a separate legal group and, therefore, it is not meaningful to show share capital or an analysis of reserves for the Fonebak business, prior to this date. During these periods, the net assets of the Fonebak business are represented by the cumulative net investment of SEG in the Fonebak business (shown as "SEG net investment in the Fonebak business").
- The "SEG net investment in the Fonebak business" comprises: (a) loans due to and from SEG group companies; and (b) the net investment of the SEG group in MPD and the Belgian, French, German and Romanian subsidiaries.
- All non-trading transactions between the Fonebak business and the SEG group have been reflected as movements in "SEG net investment in the Fonebak business".

(c) *Turnover and cost of sales*

Turnover comprises invoiced amounts receivable by the Fonebak business, in the ordinary course of business, for sales of goods and services to third parties, excluding value added tax and other sales taxes. The Fonebak business records transactions as sales when the delivery of goods or performance of services has taken place in accordance with the terms of the sale.

A significant proportion of the turnover of the Fonebak business is generated from the sale of mobile phones and related accessories that are the subject of revenue sharing agreements with the clients that supply the mobile phones and accessories. Under these revenue sharing agreements, typically no payment is due to a client until the sale of the mobile phones and accessories has occurred. On the sale, the client receives an agreed share of the sales proceeds. The Fonebak business includes the share of revenue due to the client under these types of arrangements as cost of sales.

(d) *Goodwill*

Goodwill is calculated as the excess of the fair value of the purchase consideration over the fair value attributable to the separately identifiable assets and liabilities of the acquired subsidiary. Goodwill is capitalised on acquisition and amortised on a straight-line basis over its estimated useful economic life. The life is determined after taking account of the nature of the business acquired and the nature of the markets in which it operates, and is typically between 5 and 20 years.

(e) *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset on a straight line basis over the asset's estimated useful life as follows:

Leasehold improvements	Over the period of the lease or life of the improvements if less
Motor vehicles	25 per cent. per annum
Plant and equipment	20 per cent. per annum
Computer hardware and software	33 per cent. per annum

(f) *Stock and work in progress*

Stock and work in progress is stated at the lower of cost and net realisable value. Cost includes all direct expenditure and an appropriate proportion of attributable overheads.

For stock items acquired under revenue sharing agreements, as described in note 2(c) above, legal title to the stock items does not pass to the Fonebak business until immediately before the items are sold. As the majority of the risks and rewards of the items received by the Fonebak business under the revenue sharing agreements reside with the Fonebak business they are accounted for as stocks of the Fonebak business. Under revenue sharing agreements cost is recorded at nil, except where an amount is paid to the suppliers in advance of the goods being sold or the Fonebak business guarantees that the suppliers will receive a minimum amount of the shared revenue. In these circumstances the amount of the payment or guarantee is included in stock.

(g) *Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Fonebak business' taxable profits and its results as stated in this Pro Forma Combined Interim Financial Information.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary.

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

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted or where there are deferred tax liabilities against which the assets can be recovered.

(h) Leases

Rentals payable under operating leases are written off to the profit and loss account on a straight line basis over the periods of the leases.

(i) Foreign currencies

Transactions denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into Sterling at rates of exchange ruling at the balance sheet date. The profit and loss accounts and cash flows of overseas subsidiaries are translated into Sterling at the weighted average exchange rates applicable during the year and their assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of opening net assets of overseas subsidiaries, together with differences between profit and loss accounts at average and closing rates, are shown as a movement in reserves. All other exchange differences are dealt with in the profit and loss account.

(j) Pensions

The Fonebak business offers defined contribution pension arrangements to certain employees. Payments to defined contribution pension schemes are expensed as incurred. The Fonebak business does not operate any defined benefit pension arrangements.

(k) Employee share option scheme

The Fonebak business operates an Enterprise Management Incentives scheme in accordance with the rules laid down by the Inland Revenue for the operation of such schemes. Differences between the exercise price of options granted and the fair value of a Fonebak plc share at the date of grant are recorded as a cost in accordance with UITF 17 (Employee Share Schemes). The related credit entry is recorded in reserves. Where employee performance criteria exist, the cost is spread evenly over the performance period.

(l) Provisions

A provision is recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions in respect of deferred taxation are dealt with in accounting policy (g), above. Provisions in respect of deferred contingent consideration for acquisitions are made at the directors' best estimate of the likely consideration payable taking account of the performance criteria that affect the level of deferred consideration.

(m) Debt instruments and financing costs

Debt instruments are stated at the amount of the net proceeds received, adjusted for facility fee and redemption premium amortisation where the intention is to hold the debt instrument to maturity. Financing costs, including facility fees and redemption premia, are amortised over the term of the instrument so as to produce a constant rate of return over the period to the date of expected redemption. In instances where the Company has an early redemption option, the term over which facility fees and redemption premia are amortised is the period to the earliest date the option can be exercised, unless there is no genuine commercial possibility that the option will be exercised.

(n) *Derivative financial instruments*

Interest differentials, under interest rate swap agreements used to vary the amounts and periods for which interest on borrowings are fixed, are recognised by adjustment to interest payable. Premia or discounts arising are amortised over the life of the agreement. Interest rate swap agreements are not revalued to fair value or included in the balance sheet at period ends.

3. Exceptional financing cost

As a result of entering into new financing arrangements as part of the group reorganisation, the following financing costs were incurred: a facility fee of £300,000; the issue of shares to the lender at a discount, of £485,000, to the Directors' estimate of their fair value; and an estimated redemption premium of £600,000, payable upon the repayment of a £2.5 million tranche of the debt. The redemption premium increases in amount if the relevant tranche of debt is not repaid prior to 15 March 2006. As the Company has the option of repaying the debt at any time following initial drawn down, the entire amount of these costs (£1,385,000) has been charged to the profit and loss account in the period to 31 December 2004, and is disclosed as an exceptional financing cost.

4. Earnings per share

Earning per share information has not been presented given the change in the capital structure and financing arrangements of the Fonebak business during the periods presented.

5. Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	<i>Six months ended 31 December 2003 £'000</i>	<i>Six months ended 31 December 2004 £'000</i>
Operating profit	908	1,000
Depreciation charge	142	132
Goodwill amortisation	18	280
Charge in respect of the share option scheme	–	75
Decrease in stocks	920	671
Increase in debtors	(172)	(612)
(Decrease)/increase in creditors	(189)	1,230
Total net cash inflow from operating activities	1,627	2,776

6. Analysis of net cash/(debt)

	<i>Cash in hand and at bank £'000</i>	<i>Overdrafts £'000</i>	<i>Total £'000</i>	<i>Debt due within one year £'000</i>	<i>Net cash/(debt) £'000</i>
At 1 July 2003	526	(13)	513	(500)	13
Cash flow	(72)	3	(69)	–	(69)
Other non-cash changes	–	–	–	(162)	(162)
At 31 December 2003	454	(10)	444	(662)	(218)
At 1 July 2004	3,129	(9)	3,120	(662)	2,458
Cash flow	(189)	3	(186)	(8,400)	(8,586)
At 31 December 2004	2,940	(6)	2,934	(9,062)	(6,128)

New banking facilities were obtained and £8.9 million of new debt was drawn down under these facilities as part of the group reorganisation, on 15 September 2004, and £0.5 million of existing debt was repaid. The amounts drawn down under the new facilities are repayable upon the admission to AIM of Fonebak plc.

The other non-cash changes relate to the loan notes issued, totalling £162,000, as part of the consideration for the acquisition of Fonebak Servicii s.r.l. (see note 8).

7. Acquisition of business

On 15 September 2004, SEG underwent a group reorganisation, the effect of which was that the Company acquired the Fonebak business of SEG and its subsidiaries. £17.3 million of goodwill was recorded as a result of the acquisition, based upon the Directors' estimate of the fair value of the business acquired. The consideration was satisfied by the issue of shares by the Company. The goodwill is being amortised over 20 years.

The fair value of the net liabilities acquired and the fair value of the consideration are set out in the table below.

	<i>Fair value</i> £'000
Cash (net of overdrafts)	2,649
Borrowings	(9,062)
Other net assets	588
Fair value of net liabilities acquired	(5,825)
Acquisition expenses	(450)
Discount on fair value of shares subscribed for cash (charged as a financing cost)	485
Goodwill	17,340
Fair value of non-cash consideration	11,550
Cash consideration	150
Fair value of total consideration	11,700

8. Post balance sheet events

Loan notes totalling £162,000, issued by SEG in respect of the acquisition of Fonebak Servicii s.r.l., were redeemed in January 2005 in accordance with the terms of their issue. In accordance with the terms of the group reorganisation Fonebak plc indemnified SEG and consequently repaid SEG the £162,000.

On 21 March 2005 the Company's authorised share capital was increased to £800,000. On the same date the Company issued 11,654,995 ordinary shares of two pence each by means of a bonus issue, the bonus issue being 3.2877291961 new shares for every one share in issue at that date. Following the bonus issue the total number of ordinary shares of two pence each in issue was 15,199,995.

On 22 March 2005 the Company agreed new banking facilities, which it is intended will replace its existing facilities on admission of the Company's shares to AIM. These new facilities comprise a term loan of £4.0 million and a working capital facility of £3.5 million.

SECTION B
Unaudited Consolidated Interim Financial Information

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<i>Period ended 31 December 2004</i>
	<i>Note</i>	<i>£'000</i>
Turnover		10,815
Cost of sales		(8,803)
Gross profit		<u>2,012</u>
Distribution costs		(486)
Administrative expenses		<u>(802)</u>
Operating profit		988
before goodwill amortisation		(264)
Goodwill amortisation		(264)
Operating profit		724
Net interest payable		(191)
Exceptional financing costs	3	(1,385)
Total financing costs		<u>(1,576)</u>
Loss on ordinary		
activities before taxation		(852)
Tax on loss on ordinary activities		<u>(12)</u>
Loss on ordinary		
activities after taxation		(864)
Dividends		<u>–</u>
Retained loss for the period		<u><u>(864)</u></u>
Loss per share (pence):		
Basic	4	(13.2)p
Diluted		(13.2)p

All the results stated above derive from acquired operations.

There are no differences between the loss on ordinary activities before taxation and the retained loss for the period stated above and its historical cost equivalents.

The results stated above are for the period from 27 April 2004 (the date of incorporation of the Company) to 31 December 2004.

UNAUDITED CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Period ended 31 December 2004 £'000</i>
Loss for the period	(864)
Exchange adjustments offset in reserves	(4)
Total recognised losses for the period	<u>(868)</u>

UNAUDITED RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS

	<i>Period ended 31 December 2004 £'000</i>
Loss for the period	(864)
Exchange adjustments offset in reserves	(4)
Share option scheme	75
Issue of share capital at fair value	<u>11,700</u>
Net increase in consolidated equity shareholders' funds	10,907
Opening equity shareholders' funds	<u>–</u>
Closing equity shareholders' funds	<u>10,907</u>
Represented by:	
Share capital	71
Share premium	11,629
Retained losses	(793)
	<u>10,907</u>

UNAUDITED CONSOLIDATED BALANCE SHEET

	<i>As at 31 December 2004 £'000</i>
Fixed assets	
Intangible assets	17,076
Tangible assets	617
	<u>17,693</u>
Current assets	
Stock	2,918
Debtors	2,324
Cash at bank and in hand	2,940
	<u>8,182</u>
Creditors – amounts falling due within one year	(14,790)
Net current liabilities	<u>(6,608)</u>
Total assets less current liabilities	11,085
Provision for liabilities and charges	(175)
Equity minority interests	(3)
Net assets	<u>10,907</u>
Represented by:	
Called up share capital	71
Share premium account	11,629
Profit and loss account	(793)
Equity shareholders' funds	<u>10,907</u>

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	<i>Note</i>	<i>Period ended 31 December 2004 £'000</i>
Net cash inflow from operating activities	5	<u>1,801</u>
Returns on investment and servicing of finance		
Interest received		32
Interest paid		(222)
Financing facility fee		<u>(300)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(490)</u>
Taxation		<u>(638)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets		(88)
Sales of tangible fixed assets		<u>–</u>
Net cash outflow from capital expenditure and financial investment		<u>(88)</u>
Acquisitions		
Costs associated with the acquisition of the Fonebak business		(450)
Cash acquired with subsidiaries (net of overdrafts)		<u>2,649</u>
Net cash inflow from acquisitions		<u>2,199</u>
Net cash inflow before financing		<u>2,784</u>
Financing		
Issue of ordinary share capital		<u>150</u>
Net cash inflow from financing		<u>150</u>
Increase in cash	6	<u><u>2,934</u></u>

UNAUDITED RECONCILIATION OF CONSOLIDATED NET CASH FLOW TO MOVEMENT IN NET DEBT

	<i>Note</i>	<i>Period ended 31 December 2004 £'000</i>
Net debt at beginning of period		–
Borrowings acquired		(9,062)
Increase in cash		<u>2,934</u>
Net debt at end of period	6	<u><u>(6,128)</u></u>

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Companies included in the Unaudited Consolidated Interim Financial Information

The Unaudited Consolidated Interim Financial Information presents the financial record of Fonebak plc, since its incorporation on 27 April 2004, and the Fonebak business activities and subsidiaries since their acquisition by the Company on 15 September 2004. The following are the subsidiary undertakings of the Company as at 31 December 2004:

<i>Company</i>	<i>Nature of business</i>	<i>Country of incorporation and operation</i>	<i>Effective interest as at 31 December 2004</i>
Shields Environmental SA	Support services for the Fonebak business	Belgium	100%
Shields Environmental SARL	Support services for the Fonebak business	France	100%
Shields Environmental GmbH	Support services for the Fonebak business	Germany	100%
Fonebak Servicii s.r.l.	Repair and refurbishment of mobile phones	Romania	83.125%

2. Accounting policies

(a) Accounting convention

The Unaudited Consolidated Interim Financial Information has been prepared under the historical cost convention, in accordance with applicable accounting standards in the United Kingdom, which have been applied on a consistent basis, and on a going concern basis.

(b) Basis of consolidation

The Unaudited Consolidated Interim Financial Information consolidates the results, cash flows and balance sheets of Fonebak plc and its subsidiary undertakings (together the “Group”). A list of the Company’s subsidiary undertakings is given above. The results of subsidiary undertakings acquired during a financial period are included from the date of acquisition. The financial statements and interim reports of subsidiaries are prepared in accordance with the Company’s accounting policies and to coterminous balance sheet dates. Profits or losses on intra-group transactions are eliminated in full. On acquisition of a subsidiary, all of the subsidiary’s assets and liabilities existing at the date of acquisition are reflected at their fair values.

(c) Turnover and cost of sales

Turnover comprises invoiced amounts receivable by the Group, in the ordinary course of business, for sales of goods and services to third parties, excluding value added tax and other sales taxes. The Group records transactions as sales when the delivery of goods or performance of services has taken place in accordance with the terms of the sale.

A significant proportion of the turnover of the Group is generated from the sale of mobile phones and related accessories that are the subject of revenue sharing agreements with the clients that supply the mobile phones and accessories. Under these revenue sharing agreements, typically no payment is due to a client until the sale of the mobile phones and accessories has occurred. On the sale, the client receives an agreed share of the sales proceeds. The Group includes the share of revenue due to the client under these types of arrangements as cost of sales.

(d) Goodwill

Goodwill is calculated as the excess of the fair value of the purchase consideration over the fair value attributable to the separately identifiable assets and liabilities of the acquired subsidiary. Goodwill is capitalised on acquisition and amortised on a straight-line basis over its estimated useful economic life. The life is determined after taking account of the nature of the business acquired and the nature of the markets in which it operates, and is typically between 5 and 20 years.

(e) *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset on a straight line basis over the asset's estimated useful life as follows:

Leasehold improvements	Over the period of the lease or life of the improvements if less
Motor vehicles	25 per cent. per annum
Plant and equipment	20 per cent. per annum
Computer hardware and software	33 per cent. per annum

(f) *Stock and work in progress*

Stock and work in progress is stated at the lower of cost and net realisable value. Cost includes all direct expenditure and an appropriate proportion of attributable overheads.

For stock items acquired under revenue sharing agreements, as described in note 2(c) above, legal title to the stock items does not pass to the Group until immediately before the items are sold by the Group. As the majority of the risks and rewards of the items received by the Group under the revenue sharing agreements reside with the Group they are accounted for as stocks of the Group. Under revenue sharing agreements cost is recorded at nil, except where an amount is paid to the suppliers in advance of the goods being sold or the Group guarantees that the suppliers will receive a minimum amount of the shared revenue. In these circumstances the amount of the payment or guarantee is included in stock.

(g) *Deferred taxation*

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

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary.

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

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted or where there are deferred tax liabilities against which the assets can be recovered.

(h) *Leases*

Rentals payable under operating leases are written off to the profit and loss account on a straight line basis over the periods of the leases.

(i) *Foreign currencies*

Transactions denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into Sterling at rates of exchange ruling at the balance sheet date. The profit and loss accounts and cash flows of overseas subsidiaries are translated into Sterling at the weighted average exchange rates applicable during the year and their assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of opening net assets of overseas subsidiaries, together with differences between profit and loss accounts at average and closing rates, are

shown as a movement in reserves. All other exchange differences are dealt with in the profit and loss account.

(j) Pensions

The Group offers defined contribution pension arrangements to certain employees. Payments to defined contribution pension schemes are expensed as incurred. The Group does not operate any defined benefit pension arrangements.

(k) Employee share option scheme

The Group operates an Enterprise Management Incentives scheme in accordance with the rules laid down by the Inland Revenue for the operation of such schemes. Differences between the exercise price of options granted and the fair value of a Fonebak plc share at the date of grant are recorded as a cost in accordance with UITF 17 (Employee Share Schemes). The related credit entry is recorded in reserves. Where employee performance criteria exist, the cost is spread evenly over the performance period.

(l) Provisions

A provision is recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions in respect of deferred taxation are dealt with in accounting policy (g), above. Provisions in respect of deferred contingent consideration for acquisitions are made at the directors' best estimate of the likely consideration payable taking account of the performance criteria that affect the level of deferred consideration.

(m) Debt instruments and financing costs

Debt instruments are stated at the amount of the net proceeds received, adjusted for facility fee and redemption premium amortisation where the intention is to hold the debt instrument to maturity. Financing costs, including facility fees and redemption premia, are amortised over the term of the instrument so as to produce a constant rate of return over the period to the date of expected redemption. In instances where the Company has an early redemption option, the term over which facility fees and redemption premia are amortised is the period to the earliest date the option can be exercised, unless there is no genuine commercial possibility that the option will be exercised.

(n) Derivative financial instruments

Interest differentials, under interest rate swap agreements used to vary the amounts and periods for which interest on borrowings are fixed, are recognised by adjustment to interest payable. Premia or discounts arising are amortised over the life of the agreement. Interest rate swap agreements are not revalued to fair value or included in the balance sheet at period ends.

3. Exceptional financing cost

As a result of entering into new financing arrangements as part of the Shields Environmental Group plc ("SEG") group reorganisation referred to in note 7 below, the following financing costs were incurred: a facility fee of £300,000, the issue of shares to the lender at a discount, of £485,000, to the Directors' estimate of their fair value; and an estimated redemption premium of £600,000, payable upon the repayment of a £2.5 million tranche of the debt. The redemption premium increases in amount if this tranche of debt is not repaid prior to 15 March 2006. As the Company has the option of repaying the debt at any time following initial drawn down, the entire amount of these costs (£1,385,000) has been charged to the profit and loss account in the period to 31 December 2004, and is disclosed as an exceptional financing cost.

4. Loss per share

The weighted average number of shares used in the calculations of the losses per share are set out below and take account of the bonus issue which took place on 21 March 2005.

	<i>Period ended 31 December 2004 Number</i>
Weighted average number of shares in issue	6,558,184
Dilution for share options	—
Diluted weighted average number of shares	<u>6,558,184</u>
Basic loss per share (pence)	(13.2)p
Diluted loss per share (pence)	(13.2)p

The calculation of the loss per share has been based on the loss for the period ended 31 December 2004 of £864,000.

5. Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	<i>Period ended 31 December 2004 £'000</i>
Operating profit	724
Depreciation charge	78
Goodwill amortisation	264
Charge in respect of the share option scheme	75
Decrease in stocks	338
Increase in debtors	(674)
Increase in creditors	996
Total net cash inflow from operating activities	<u>1,801</u>

6. Analysis of net debt

	<i>Cash in hand and at bank £'000</i>	<i>Overdrafts £'000</i>	<i>Total £'000</i>	<i>Debt due within 1 year £'000</i>	<i>Net debt £'000</i>
At 27 April 2004	—	—	—	—	—
Cash flow	2,940	(6)	2,934	—	2,934
Acquisition (excluding cash and overdrafts)	—	—	—	(9,062)	(9,062)
At 31 December 2004	<u>2,940</u>	<u>(6)</u>	<u>2,934</u>	<u>(9,062)</u>	<u>(6,128)</u>

New banking facilities were obtained and £8.9 million of new debt was drawn down under these upon the Company's acquisition of the business activities of the Group, on 15 September 2004, and £0.5 million of acquired debt was repaid. The amounts drawn down under the new facilities are repayable upon the admission to AIM of Fonebak plc.

7. Acquisition of business

On 15 September 2004, SEG underwent a group reorganisation, the effect of which was that Fonebak plc acquired all of the Fonebak business activities of SEG and its subsidiaries. £17.3 million of goodwill was recorded as a result of the acquisition, based on the Directors' estimate of the fair value of the business acquired. The consideration was satisfied by the issue of shares by the Company. The goodwill is being amortised over 20 years.

The fair value of the net liabilities acquired and the fair value of the consideration are set out in the table below.

	<i>Fair value</i> £'000
Cash (net of overdrafts)	2,649
Borrowings	(9,062)
Other net assets	588
Fair value of net liabilities acquired	(5,825)
Acquisition expenses	(450)
Discount on fair value of shares subscribed for cash (charged as a financing cost)	485
Goodwill	17,340
Fair value of non-cash consideration	11,550
Cash consideration	150
Fair value of total consideration	11,700

8. Post balance sheet events

Loan notes totalling £162,000, issued by SEG in respect of the acquisition of Fonebak Servicii s.r.l., were redeemed in January 2005 in accordance with the terms of their issue. In accordance with the terms of the group reorganisation, on 15 September 2004, Fonebak plc indemnified SEG and consequently repaid SEG the £162,000.

On 21 March 2005 the Company's authorised share capital was increased to £800,000. On the same date the Company issued 11,654,995 ordinary shares of two pence each by means of a bonus issue, the bonus issue being 3.2877291961 new shares for every one share in issue at that date. Following the bonus issue the total number of ordinary shares of two pence each in issue was 15,199,995.

On 22 March 2005 the Company agreed new banking facilities, which it is intended will replace its existing facilities on admission of the Company's shares to AIM. These new facilities comprise a term loan of £4.0 million and a working capital facility of £3.5 million.

PART V

UNAUDITED PRO-FORMA STATEMENT OF NET ASSETS

The following unaudited pro-forma statement of net assets has been prepared to show the effect on the consolidated net assets of Fonebak plc of the Placing and Admission if they had taken place on 31 December 2004. Admission automatically triggers certain events, namely (i) the repayment of certain debt facilities and a related redemption premium; (ii) the drawn down of new debt; (iii) the payment of outstanding consideration in respect of the 2003 acquisition of 83.125 per cent. of the share capital of Fonebak Servicii s.r.l.; and (iv) the acquisition of the minority shareholding in Fonebak Servicii s.r.l.

The unaudited pro-forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Group. It has been compiled, on the basis set out below, from the unaudited consolidated balance sheet of the Company as at 31 December 2004.

	<i>Adjustments</i>					<i>Pro-forma net assets as at 31 December 2004</i>
	<i>The Group as at 31 December 2004</i>	<i>Net Placing proceeds</i>	<i>Debt repayment</i>	<i>Draw down of new debt</i>	<i>Acquisition consideration</i>	
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Fixed assets						
Intangible assets	17,076	–	–	–	360	17,436
Tangible assets	617	–	–	–	–	617
	17,693	–	–	–	360	18,053
Current assets						
Stock	2,918	–	–	–	–	2,918
Debtors	2,324	(80)	–	–	–	2,244
Cash at bank and in hand	2,940	3,830	(9,500)	3,990	(538)	722
	8,182	3,750	(9,500)	3,990	(538)	5,884
Creditors: amounts falling due within one year	(14,790)	–	9,500	–	–	(5,290)
Net current (liabilities)/assets	(6,608)	3,750	–	3,990	(538)	594
Total assets less current liabilities	11,085	3,750	–	3,990	(178)	18,647
Creditors: amounts falling due after more than one year	–	–	–	(4,000)	–	(4,000)
Provision for liabilities and charges	(175)	–	–	–	175	–
Equity minority interests	(3)	–	–	–	3	–
Net assets	10,907	3,750	–	(10)	–	14,647

Notes

- The consolidated net assets of Fonebak plc have been extracted without material adjustment from the unaudited interim report of the Group for the six months ended 31 December 2004, as set out in Part IV of this document.
- The adjustment reflects the minimum net proceeds from the Placing, calculated as follows:

	<i>Cash £'000</i>	<i>Net assets £'000</i>
Gross proceeds of the Placing available to the Company	5,000	5,000
Outstanding Placing expenses	(1,170)	(1,170)
Deferred Placing expenses, (included in debtors as at 31 December 2004)	–	(80)
Net Placing proceeds	3,830	3,750

3. The adjustment reflects the repayment of existing debt drawn down under facilities which are required to be repaid on Admission, under the terms of the relevant loan agreements. The adjustment comprises the repayment of the term loan (£6.4 million), the repayment of the subordinated secured loan note (£2.5 million) and the premium on the redemption of the subordinated secured loan note (£0.6 million).
4. The adjustment reflects the drawn down of £4.0 million of debt under the Company's new facility with Bank of Scotland plc.
5. Fonebak plc owns 83.125 per cent. of the share capital of Fonebak Servicii s.r.l. Upon Admission, SEG is required to purchase the remaining shares of Fonebak Servicii s.r.l., not held by the Company. On 21 March 2005, SEG assigned the right and obligation to acquire the remaining shares of Fonebak Servicii s.r.l. not held by the Company, to the Company. The adjustment reflects the payment of £363,000 to the vendors, being the Director's best estimate of the cash consideration payable for the acquisition of the minority holding. In addition, the adjustment reflects the payment of £175,000, being the remaining outstanding consideration in respect of the acquisition of the initial 83.125 per cent. of Fonebak Servicii s.r.l. which becomes payable on Admission (the obligation in respect of which has been assumed by the Company from SEG).
6. No account has been taken of the trading results or other transactions of the Group subsequent to 31 December 2004.

PART VI

ADDITIONAL INFORMATION

1. Incorporation and principal activities

- (a) The Company was incorporated and registered in England and Wales as a company limited by shares on 27 April 2004 under the Act with the name Broomco (3469) Limited and registered number 5113820. The Company changed its name to Fonebak Group Limited on 7 September 2004 and to Fonebak Limited on 26 October 2004. The Company re-registered as a public limited company on 13 January 2005 with the name Fonebak plc.
- (b) The Company's registered office and principal place of business is Unit 2, Eurocourt, Oliver Close, West Thurrock, Essex.
- (c) The principal legislation under which the Company operates is the Act. The liability of the members of the Company is limited.
- (d) The principal activity of the Company is that of a general commercial company.

2. Share capital

- (a) The authorised and issued share capital of the Company at the date of this document is as follows:

	<i>Authorised</i>		<i>Issued (fully paid)</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
Ordinary shares of £0.02 each	39,228,209	784,564.18	14,428,204	288,564.08
A Ordinary shares of £0.02 each	771,791	15,435.82	771,791	15,435.82

- (b) The following changes have taken place in the authorised and issued share capital of the Company between its incorporation and the date of this document:
 - (i) the authorised share capital of the Company as at the date of incorporation was £1,000 made up of 1,000 ordinary shares of £1 each of which one such share was held by the subscriber to the Company's memorandum of association;
 - (ii) pursuant to a written resolution dated 26 August 2004:
 - (1) the one issued ordinary share of £1 was sub-divided into 50 ordinary shares of two pence each ("Ordinary Shares") and the 999 unissued ordinary shares of £1 each in the share capital of the Company were sub-divided into 49,950 Ordinary Shares;
 - (2) the authorised share capital of the Company was increased from £1,000 to £72,000 by the creation of 3,550,000 Ordinary Shares;
 - (3) the directors of the Company were generally and unconditionally authorised to exercise all the powers of the Company to allot and issue 3,599,950 Ordinary Shares to section 80 of the Act. The Directors were empowered pursuant to section 95 of the Companies Act 1985 to allot such equity securities (within the meaning of section 94 of the said Act) as if subsection (1) of section 89 of the said Act did not apply to any such allotment.
 - (iii) on 26 August 2004 the subscriber shares were transferred to Sydney Gordon Shields;
 - (iv) pursuant to a written resolution dated 15 September 2004, 180,000 authorised but unissued Ordinary Shares were redesignated as 'A' ordinary shares of two pence each ("A Ordinary Shares") having the rights set out in the articles of association adopted on the same date;
 - (v) on 15 September 2004, 3,364,999 Ordinary Shares and 180,000 A Ordinary Shares were allotted;
 - (vi) by or pursuant to written resolutions dated 21 March 2005:

- (1) the authorised share capital of the Company was increased from £72,000 to £800,000 by the creation of 591,791 A Ordinary Shares and 35,808,209 Ordinary Shares ranking *pari passu* in all respects with the existing A Ordinary Shares and Ordinary Shares in issue;
 - (2) pursuant to section 80 of the Companies Act 1985 (“Act”), the directors were generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to a maximum amount of £233,099.90 provided that (unless previously revoked, varied or renewed) this authority shall expire on 30 April 2005, save that the Company may make an offer or agreement before such expiry which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred by this resolution had not expired;
 - (3) the sum of £233,099.90 being part of the amount standing to the credit of the share premium account of the Company was capitalised and the directors were authorised and directed to appropriate such sum for distribution to the holders of the issued shares of £0.02 each in the capital of the Company on the register on the date of the resolution as if the A Ordinary Shares and the Ordinary Shares constituted a single class and to apply it in paying up in full 11,654,995 shares in favour of the existing holders of Ordinary Shares and A Ordinary Shares at present unissued but to be allotted and issued credited as fully paid up at par to and amongst holders of Ordinary Shares and A Ordinary Shares in the proportion of 3.2877291961 new Ordinary Shares for every one Ordinary Share held and 3.2877291961 new A Ordinary Shares for every one A Ordinary Share held and to rank *pari passu* with the existing issued Ordinary Shares and A Ordinary Shares of the Company (as the case may be) provided that fractional entitlements shall be ignored and shareholders shall not be entitled to fractional certificates or to payments in lieu of them. This authority shall expire on 30 April 2005;
- (vii) on 21 March 2005, 11,063,204 Ordinary Shares and 591,791 A Ordinary Shares were allotted to the existing shareholders in accordance with the resolution referred to in (vi)(3) above.
- (viii) by or pursuant to written resolutions dated 21 March 2005 and conditional upon Admission taking place not later than 30 April 2005:
- (1) each of the existing issued and unissued A Ordinary Shares were redesignated as an Ordinary Share;
 - (2) the Directors were generally and unconditionally authorised in accordance with Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal value of £127,999.95 provided that such authority shall (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) expire 15 months from the date of this resolution or at the date of the next AGM, if earlier, provided that such authority shall allow the Company to make an offer or enter into an agreement before the expiry of such authority which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by the resolution had not expired;
 - (3) the Directors were given power pursuant to Section 95 of the Act (with the power expiring at the same time as the Section 80 authority referred to in the resolution 2(b)(viii)(2) above to allot equity securities (as defined in the Act) for cash as if Section 89(1) of the Act did not apply to any such allotment, such power being limited to:
 - (i) the allotment of equity securities up to a maximum amount of £80,000 in connection with the Placing;
 - (ii) the allotment of equity securities in connection with rights issues to holders of shares in the capital of the Company where the equity securities respectively attributable to

the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of shares of the same class in the capital of the Company held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under laws of, or the requirements of any regulatory body or any recognised stock exchange in, any territory;

- (iii) the allotment (other than pursuant to (i) and (ii) above) of equity securities up to a maximum aggregate nominal amount of £19,200);

except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired.

- (c) Immediately before the Placing and Admission (but after the share capital reconstruction referred to in paragraphs (b)(vi) and (b)(vii) above) the authorised and issued share capital of the Company will be as follows:

	<i>Authorised</i>		<i>Issued (fully paid)</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
Ordinary Shares	40,000,000	800,000	15,199,995	303,999.90

- (d) Immediately following the Placing and Admission, the authorised and issued share capital of the Company will be as follows:

	<i>Authorised</i>		<i>Issued (fully paid)</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
Ordinary Shares	40,000,000	800,000	19,199,995	383,999.90

- (e) The new Ordinary Shares will be issued in reliance on the authority and power referred to in paragraph (b)(vii) above.
- (f) On Admission the Ordinary Shares will rank *pari passu* in all respects.
- (g) The Company's articles of association contain no provisions as to rights of pre-emption on either the transfer, issue or allotment of shares. The provisions of section 89 of the Act (which confer on Shareholders rights of pre-emption in respect of the allotment of equity securities (within the meaning of section 94(2) of the Act) 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, except to the extent that such provisions have been disapplied, to the authorised but unissued share capital of the Company in respect of which the Directors currently have (pursuant to the resolution referred to in paragraph (b)(viii) above) authority to make allotments pursuant to sections 80 and 89 of the Act.
- (h) The authorised but unissued share capital of the Company following the Placing will be £416,000.10, representing approximately 52 per cent. of the Company's authorised share capital, of which the Directors will be authorised to allot shares up to a nominal value of £127,999.95 pursuant to the authority referred to in paragraph 2(b)(viii) above.
- (i) Save for the allotments referred to in paragraphs 2(b)(v) and 2(b)(vii) above, since incorporation no capital of the Company has been allotted for cash or for a consideration other than cash.
- (j) Save for the issue of the Placing Shares and the grant of options under the EMI Plan referred to in 3(a) of this Part VI, no capital of the Company is proposed to be issued or is under option or is agreed conditionally or unconditionally to be put under option.

3. Directors

(a) *Interests in Ordinary Shares*

Save as set out below, none of the Directors or any of their immediate family, nor any person connected with any of the Directors within the meaning of section 346 of the Act has had or will have any interest in any share capital of the Company or any member of the Group either immediately prior to Admission (but after the share capital reconstruction referred to in paragraphs 2(b)(vi) and 2(b)(vii) of this Part VI) or immediately following Admission:

	<i>Immediately prior to Admission</i>			<i>Following Admission</i>	
	<i>No. of Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>No. of Ordinary Shares sold in the Placing</i>	<i>No. of Ordinary Shares</i>	<i>Percentage of enlarged issued share capital</i>
<i>Directors</i>					
G S Shields	10,033,285	66.0	5,233,285	4,800,000	25.0
K Woodward	771,791	5.1	–	771,791	4.0
S A Shields	1,543,582	10.2	–	1,543,582	8.0
A Crocker	381,607	2.5	–	381,607	2.0

Options to acquire Ordinary Shares

Save as set out below, as at the date of Admission, the Directors do not hold any options to subscribe for or to purchase Ordinary Shares:

	<i>Type of Scheme</i>	<i>Date of grant</i>	<i>Ordinary Shares under option</i>	<i>Exercise Price</i>	<i>Exercise Dates</i>	
					<i>From</i>	<i>To</i>
K Woodward	EMI Plan	23/3/05	480,000	Placing Price	23/3/08	23/3/15
AR Crocker	EMI Plan	15/11/04	235,825	2 Pence	15/11/04	14/11/14
AR Crocker	EMI Plan	23/3/05	384,000	Placing Price	23/3/08	23/3/15

(b) *City Code on Takeovers and Mergers*

Under Rule 9 of the City Code, when (i) any person acquires shares which, when taken together with shares held by him or shares held or acquired by persons acting in concert with him, carry 30 per cent. or more of the voting rights of a company subject to the City Code or (ii) any person who, together with persons acting in concert with him, holds shares carrying not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company subject to the City Code and such person, or persons acting in concert with him acquires any further shares carrying voting rights, that person is normally obliged to make a general offer to all remaining shareholders to purchase their shares for cash at the highest price paid by him or any person acting in concert with him, within the preceding 12 months.

Under the City Code, a concert party arises where persons acting together pursuant to an agreement or understanding (whether formal or informal) actively co-operate, through the acquisition by them of shares in a company, to obtain or consolidate control of that company. Control means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights of the company, irrespective of whether the holding or holdings give *de facto* control.

In this case, the Panel deems that SG Shields and SA Shields, both of whom are Directors (the “Concert Party”) are acting in concert (as that term is defined in the City Code). SG Shields and SA Shields are brothers. Further details in respect of SG Shields and SA Shields are included in Part I of this document.

The following table sets out the shareholdings of the Concert Party in the Company following Admission:

	<i>Following Admission</i>	
	<i>No. of Ordinary Shares</i>	<i>Percentage</i>
SG Shields	4,800,000	25.0
SA Shields	1,543,582	8.0
	6,343,582	33.0

As set out above, on Admission the Concert Party will hold more than 30 per cent. (but not more than 50 per cent.) of the Company's voting share capital and any increase in the shareholding of the Concert Party will be subject to the provisions of Rule 9 of the City Code.

(c) *Directorships*

The Directors of the Company are set out on page 5 of this document. The Directors currently hold the following directorships, other than in the Company and its subsidiaries, and have held the following directorships within the five years prior to the publication of this document:

	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
SG Shields	Broomco (3470) Limited Netbak Limited Shields Environmental 2004 Limited Shields Environmental Group plc Shields Environmental Group (Holdings) Limited Shields Environmental plc Shields Mobile Limited Shields Telequip Limited Sustainable Takeback Limited Sustainable Technologies Group Limited Sustainable Technologies (Communications) Limited Shields Environmental Inc 3911896 Canada Inc Shields Telequip Inc Sustainable Technologies Canada Inc Shields Environmental SA Shields Environmental Pte Ltd Shields Environmental BV	Intex Shields Limited Shields Metals Limited Sustainable Technologies USA Inc Shields Telequip Inc. 8675 Florida Inc Shields Environmental Holdings Inc Shields Environmental Inc
K Woodward	AHR Services Limited	Shields Environment plc The Astron Group Limited
SA Shields	–	Intex Shields Limited Shields Environmental Group Limited Shields Environmental Limited

	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
AR Crocker	Broomco (3470) Limited Shields Environmental Group plc Shields Environmental Group (Holdings) Limited Shields Environmental plc Netbak Limited Shields Environmental Inc Shields Telequip Inc Sustainable Technologies Canada Inc Shields Environmental SA Shields Environmental SARM Shields Environmental GmbH Shields Telequip Inc. Shields Environmental Holdings Inc Shields Environmental Inc Shields Environmental Pte Ltd Shields Environmental BV	Sustainable Technologies USA Inc 8675 Florida Inc
DA Holland	The Council for Administration PIES Services Ltd Pudos Ltd	BPC Pension Trustees (No 1) Ltd Polestar Holdings Ltd Polestar Pension Trustees Limited Polestar Scientifica Limited Polestar Magazines & Catalogues Limited The Polestar Corporation PLC The Polestar Group Limited

(d) *Receiverships and liquidations*

At the date of this document none of the Directors has:

- (i) had any unspent convictions in relation to indictable offences;
- (ii) been declared bankrupt or entered into an individual voluntary arrangement;
- (iii) been a director with an executive function of any company at the time or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;
- (iv) been a partner in a partnership at the time of, or within twelve months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of any such partnership;
- (v) had his assets the subject of any receivership or has been a partner of a partnership at the time of or within the twelve months preceding, any assets thereof being the subject of a receivership;
- (vi) been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company; or
- (vii) any business interests or activities outside the Group which are significant with respect to the Group.

(e) *Terms of employment*

(i) *Executive Directors*

Current service agreements

Each of the executive Directors of the Company has a service agreement with the Company. The principal terms are summarised below:

<i>Director</i>	<i>Job title</i>	<i>Date of agreement</i>	<i>Salary per annum</i>
K Woodward	Chief Executive	23 March 2005	£120,000
SA Shields	Managing Director	23 March 2005	£110,000
AR Crocker	Group Finance Director	23 March 2005	£85,000

The agreement with SA Shields is terminable on 12 months' notice by either the employing company or the executive Director. The agreements with each of K Woodward and AR Crocker are for a fixed period of one year and are thereafter terminable on 12 month's notice by either the employing company or the executive Director (such notice not to be given in the first 12 months following the date of the respective agreement). The salaries are subject to annual review by the Company's remuneration committee but there is no contractual entitlement to any increase in basic salary. K Woodward and AR Crocker are entitled to an annual bonus equal to 1.5 per cent. of the consolidated operating profit of the Group taken from the figures contained in management accounts for the relevant financial year. SA Shields is entitled to a bonus equal to 1.75 per cent. of the gross margin of the Company as recorded in the management accounts for the relevant financial year.

Under his service agreement, AR Crocker is required to spend at least 80 per cent. of his time devoted to the Company.

The following benefits and emoluments are also granted to each of the executive Directors under the terms of their service agreements:

- 25 days holiday;
- sick pay for up to six months at full pay and thereafter such remuneration (if any) as the Board shall determine in its discretion.

In addition K Woodward and SA Shields each receive a number of other benefits including a company car, an annual pension contribution of 10 per cent. of basic salary (for K Woodward only) and life insurance of three times basic salary and medical benefits and insurance. AR Crocker receives a mixture of insurance and medical benefits up to a purchase price of £7,000 per annum and an annual pension contribution of 26 per cent. of basic salary.

Each of the executive Directors is also subject to non-competition and non-solicitation covenants in favour of the Company for the period of their employment and for 12 months following cessation of their employment.

(ii) *Non-executive Directors*

SG Shields is a non-executive director and the Chairman of the Company. His terms of engagement are set out in a letter of appointment dated 23 March 2005. His appointment is terminable on twelve month's notice by either party. The Company may also terminate the appointment without notice and compensation if he accepts a position or acquires an interest in another company, without Board approval, which in the Board's reasonable opinion, is likely to give rise to a material conflict of interest with his position as Director of the Company. The fee payable for his services is £50,000 per annum and is subject to annual review by the remuneration committee.

DA Holland was appointed as a non-executive director of the Company by letter of appointment dated 7 March 2005. His appointment is for a fixed term of 12 months and is terminable thereafter on one month's notice by either party. The Company may also terminate the appointment without notice and compensation if he accepts a position or acquires an interest in another company, without Board approval, which in the Board's reasonable opinion, is likely to give rise to a

material conflict of interest with his position as Director of the Company. The fee payable for his services is £20,000 per annum and is subject to annual review by the remuneration committee.

Save as disclosed above, there are no existing or proposed service contracts between any of the Directors and the Company or any member of the Group.

(f) Estimate of remuneration

The aggregate of the remuneration paid and benefits in kind (including pension contributions) granted to the Directors by Shields Environmental Group plc for their services to the mobile phone division comprising the business and assets of the Fonebak business during the financial year ended 30 June 2004 was £530,000. The aggregate of the remuneration payable and benefits in kind (including pension contributions but excluding any performance related remuneration) to be granted by the Group to the Directors for the financial period ending 30 June 2005 under the arrangements in force at the date of this document is estimated to be approximately £440,000.

4. Substantial shareholders

Other than the holdings of the Directors, which are set out in paragraph 3 above, the Directors are aware of the following who, immediately before the Placing and Admission (but after the share capital reconstruction referred to in paragraphs 2(b)(vi) and 2(b)(viii) of this Part VI) and immediately after the Placing and Admission, will be interested, directly or indirectly, in 3 per cent. or more of the Company’s share capital:

	<i>Immediately prior to Admission</i>		<i>Following Admission</i>		
	<i>No. of Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>No. of Ordinary Shares sold</i>	<i>No. of Ordinary Shares</i>	<i>Percentage of Enlarged Issued Share Capital</i>
<i>Directors</i>					
Uberior Investments plc	771,791	5.00	771,791	Nil	Nil

5. Memorandum of Association

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

6. Articles of Association

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

(a) Voting rights

Subject to any terms as to voting upon which any shares may have been issued or may for the time being be held or any suspension or abrogation of voting rights pursuant to the Articles, at a general meeting of the Company:

- (i) every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being himself a member, shall, on a show of hands, have one vote; and
- (ii) every member present in person or by representative (in the case of a corporate member) or by proxy shall, on a poll, have one vote for every share of which he is the holder.

Unless the Board otherwise determines, a member shall not be entitled to vote unless all calls or other sums due from him in respect of shares in the Company have been paid.

(b) Variation of rights

Subject to the provisions of the Acts (as defined in the Articles), all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated in such manner (if any) as

may be provided by such rights, or, in the absence of any such provision, either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of such holders of shares of that class, but not otherwise. The quorum at any such meeting is two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class in question or, at an adjourned meeting, two persons holding shares of the class in question or their proxies. Any holder of shares of the class in question present in person or by proxy may demand a poll. Holders of shares of the class in question shall, on a poll, have one vote for every share of that class held by them.

The rights attached to any class of shares shall not, unless otherwise expressly provided in the rights attaching to such shares, be deemed to be varied or abrogated by the creation or issue of shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company of any of its own shares.

(c) *Transfer of shares*

Every transfer of shares which is in certificated form must be in writing in any usual form or in any form approved by the Board and shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee.

Every transfer of Ordinary Shares which is in uncertificated form must be made by means of a relevant system (as defined in the Regulations).

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of certificated shares if: (a) it is in respect of a share which is not fully paid up; (b) it is in respect of more than one class of share; (c) it is not duly stamped (if so required); or (d) it is not delivered for registration to the registered office of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued) by the relevant share certificate and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of shares which is in favour of: (a) a child, bankrupt or person of unsound mind; or (b) more than four joint allottees or transferees.

In the case of Ordinary Shares in certificated form, the registration of transfers of Ordinary Shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Board may from time to time determine.

In the case of Ordinary Shares in uncertificated form, the register shall not be closed without the consent of the Operator of the relevant system (as defined in the Articles).

(d) *Return of capital on a winding up*

On a winding-up, the liquidator may, with the authority of an extraordinary resolution of the Company and any other sanction required by law, divide among the members in kind the whole or any part of the assets of the Company and may value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, transfer any part of the assets of the Company to trustees on such trusts for the benefit of members as he thinks fit. The liquidator shall not, however (except with the consent of the member concerned) distribute to a member any asset to which there is attached a liability or potential liability for the owner.

(e) *Alteration of share capital*

Subject to the provisions of the Acts and the Articles, the power of the Company to allot and issue shares shall be exercised by the board at such times and on such terms and conditions as the board may determine.

Subject to the provisions of the Acts and to any rights attached to any existing shares: (a) any share may be issued with such rights or restrictions as the Company may from time to time determine by ordinary resolution; and (b) the Company may issue redeemable shares.

The Company may, by ordinary resolution, (a) increase its share capital; (b) consolidate, or consolidate and then divide, all or any of its shares into shares of a larger amount; (c) sub-divide its shares or any of them into shares of a smaller amount and as a part of such sub-division determine that any of such shares may have any preference or other advantage or deferred or qualified rights or be subject to any restriction as compared with the others; (d) 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 (e) convert all or any of its paid up shares into stock, and re-convert that stock into paid up shares of any denomination.

Subject to the provisions of the Acts, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.

Subject to the provisions of the Acts and the rights of holders of any class of share, the Company may purchase all or any of its shares of any class (including redeemable shares).

(f) *Borrowing powers*

Subject to the provisions of the Acts, the board may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, to issue debentures and other securities and to give security, either outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The board shall restrict the borrowings of the Company and, insofar as it is able, of its subsidiary undertakings, so as to procure that the aggregate principal amount outstanding in respect of borrowings by the group shall not, without an ordinary resolution of the Company, exceed a sum equal to two times the aggregate of the amount paid up or credited as paid up on the Company's issued share capital and the total amount standing to the credit of the capital and revenue reserves of the group as shown in the latest audited balance sheet of the group, after such adjustments and deductions as are specified in the Articles.

(g) *Dividends and other distributions*

Subject to the provisions of the Acts (as defined in the Articles) and of the Articles, the Company may by ordinary resolution declare a dividend to be paid to the members according to their respective rights and interests in the profits of the Company, but no dividend shall exceed the amount recommended by the board. Subject to the provisions of the Acts, the board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appear to the board to be justified by the profits of the Company available for distribution.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up or credited as paid up (other than amounts paid in advance of calls) on the shares in respect of which the dividend is paid and shall be apportioned and paid proportionately to the amounts paid up on such shares during any portion or portions of the period in respect of which the dividend is paid. All dividends unclaimed for a period of 12 years after having been declared or becoming due for payment shall be forfeited and cease to remain owing by the Company.

Without prejudice to the provisions of the Articles, the board may, with the authority of an ordinary resolution of the Company direct that payment of all or part of any dividend declared may be satisfied by the distribution of specific assets.

(h) *Directors*

Unless otherwise determined by ordinary resolution, there shall be no maximum number of directors, but the number of directors shall not be less than two.

Subject to the provisions of the Acts and provided that he has disclosed to the directors the nature and extent of any interest, a director may:

- (i) enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested;
- (ii) hold any other office or place of profit under the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of director and may act by himself or through his firm in a professional capacity to the Company, and be remunerated accordingly;
- (iii) be a director or other officer, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any company promoted by the Company or in which the Company is otherwise interested or as regards which the Company has any powers of appointment; and
- (iv) shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement, transaction or proposal.

Save as otherwise provided by the Articles, a director shall not vote on, or be counted in the quorum in relation to, any resolution of the board or of a committee of the board concerning any contract, arrangement, transaction or proposal to which the Company is or is to be a party and in which he (together with any person connected with him) is to his knowledge materially interested, directly or indirectly (otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company); provided that a director shall be entitled to vote and be counted in the quorum in circumstances where the resolution relates:

- (a) to the giving of any guarantee, security or indemnity in respect of (i) money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings or (ii) a debt or obligation of the Company or any of its subsidiary undertakings for which the director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (b) to an offer of securities of the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (c) to another company in which he and any persons connected with him has a direct or indirect interest of any kind, provided that he and any persons connected with him do not to his knowledge hold an interest in shares representing one per cent. or more of either any class of equity share capital, or the voting rights, in such company;
- (d) to any arrangement for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award the director any privilege or benefit not generally awarded to the employees to whom such arrangement relates;
- (e) any proposal concerning the purchase or maintenance of any insurance policy under which he may benefit.

A director shall not vote or be counted in the quorum on any resolution of the board or any committee of the board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

Unless otherwise determined by the Company by ordinary resolution, the directors (other than alternate directors) who do not hold executive office shall be paid for their services as directors such aggregate fees (not exceeding £350,000 per annum) as the board may decide. Such maximum level of fees shall be increased in line with the increase in the General Index of Retail Prices. Any fee payable shall accrue from day to day and shall be distinct from any salary, remuneration or other amounts payable to a director pursuant to other provisions of the Articles.

Each director shall be entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in the performance of his duties as director, including any expenses incurred in attending meetings of the board or of any committees of the board or general meetings or separate meetings of the holders of any class of shares or debentures of the Company. Any director who

performs special services for the Company may be paid such extra remuneration by way of additional fees, salary, percentage of profits or otherwise as the board may determine.

At each annual general meeting of the Company, there shall be required to retire by rotation: (a) one-third of the directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third; and (b) in addition, any director who at an annual general meeting shall have been a director at each of the preceding two annual general meetings of the Company (provided that he was not appointed or reappointed at either such annual general meeting and he has not otherwise ceased to be a director and been reappointed by general meeting of the Company at or since either such annual general meeting), and each such retiring director may, if eligible, offer himself for re-election. The directors to retire by rotation shall first be those who wish to retire and not offer themselves for re-election and secondly those who have been longest in office since their last appointment or reappointment and, in the case of those who have been in office an equal length of time, shall, unless they agree otherwise, be determined by lot. Any director appointed by the board shall hold office only until the next annual general meeting, when he shall be eligible for appointment, but shall not be taken into account in determining the directors to retire by rotation at that meeting.

No person shall be or become incapable of being appointed a director by reason of his having attained the age of 70 or any other age and no special notice shall be required in connection with the appointment or the approval of the appointment of any such person, nor shall a director be required to retire by reason of his having attained that or any other age.

Directors shall not be required to hold any shares in the Company.

(i) *Pensions and benefits*

The board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities, by insurance or otherwise, for any person who is, or has at any time been, a director of or employed by or in the service of the Company or of any company which is a subsidiary company of the Company, or is allied to or associated with the Company or any such subsidiary, or any predecessor in business of the Company or any such subsidiary, and for any member of his family (including a spouse or former spouse) or any person who is, or was, dependent on him.

(j) *Untraced shareholders*

The Company may sell at the best price reasonably obtainable the shares of a member or the shares to which a person is entitled by virtue of transmission on the death or bankruptcy of a member or otherwise by operation of law if all dividends, warrants and cheques sent, or funds transferred, to such member or person have remained uncashed or been returned to the Company, respectively, for a period of 12 years; the Company has paid at least three cash dividends in respect of those shares during such period; and the Company has, on the expiration of such period given notice of its intention to sell such shares in a national newspaper and an appropriate local newspaper, and no indication is received as to the whereabouts or existence of such member or persons.

The Company shall account to the member or other person entitled to such shares for the net proceeds of such sale.

7. Share Plans

7.1 *The Fonebak plc Enterprise Management Incentive Plan*

The Company has established an enterprise management incentive share option scheme (“Plan”) under which directors and employees of the Group may be granted options (“Options”) to acquire Ordinary Shares. The Plan is administered by the remuneration committee of the board of directors of the Company (“Committee”).

The principal features of the Plan are as follows:

(a) *Eligibility*

Any full time director or employee who devotes at least 25 hours per week or 75 per cent. of his total working time (if less) to the business of the Group is eligible to participate. Actual participation is at the discretion of Committee. Options are personal to the participant and not capable of assignment. Options shall be granted by deed with no consideration payable by the participant.

(b) *Material interest*

No person may participate in the Plan if he has a “material interest” in the Company. “Material Interest” means (broadly) ownership over 30 per cent. or more of the issued Ordinary Shares.

(c) *Individual participation limit*

The aggregate market value (measured at the date of grant) of Ordinary Shares over which all outstanding Options which are qualifying Options for the purposes of Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 (“ITEPA”) may be held by any one participant under the Plan and under any other EMI share option plan adopted or operated by the Company may not exceed £99,990. Options may be granted under the Plan above the £99,990 limit, but the excess above £99,990 will not qualify as EMI Options under schedule 5 to the ITEPA and so will not benefit from the tax advantages of EMI Options.

(d) *Exercise price*

The exercise price for each Ordinary Share under Option will be the higher of the nominal value of an Ordinary Share and the market value of an Ordinary Share (as derived from trading on AIM) at the time of grant.

(e) *Exercise of Options*

An Option will normally be exercisable only within the period of three to ten years after the date of grant. Exceptionally, Options may be exercised earlier where employment ceases due to the participant’s death, injury, disability, redundancy, retirement at normal retirement age, on the participant’s employing company or business ceasing to be within the Group or, at the discretion of the Committee, on the participant in question leaving employment for any other reason. In each of these situations the Option must be exercised, if at all, by the expiry of the period of six months following the cessation of employment (except in the case of death, where such period is twelve months). With the exception of the options granted to Arthur Crocker on 15 November 2004, if the employment ceases for any other reason, the Option will lapse.

(f) *Performance Target*

The Committee may impose objective conditions as to the performance of the Group (which will be set having regard to institutional guidelines) which must normally be satisfied before Options can be exercised. Having granted Options and set a performance target, the Committee may vary the performance target provided that the Committee reasonably considers that the performance target set no longer represents a fair measure of performance and provided that any new conditions are no more difficult nor easy to satisfy. Any change in the performance target will be notified to shareholders through the Company’s annual report and accounts.

(g) *Plan limits*

No Options may be granted under the Plan on any date, if as a result:

- (i) the total number of Ordinary Shares issued or issuable (including for these purposes any treasury shares transferred) pursuant to options granted in the previous ten years under all share option schemes of the Company would exceed ten per cent. of the Ordinary Shares in issue at that date; or

- (ii) the aggregate market value (at the date of grant) of all Ordinary Shares over which outstanding Options subsist under the Plan would exceed £3 million.

Options may be granted over and above the limit set out in 7(g)(ii), but these options will not qualify for the tax advantages of an enterprise management incentive plan.

(h) *Income tax and national insurance contributions*

The EMI Plan contains provisions that will ensure that any income tax, employee's and employer's national insurance contributions that arise as a result of the exercise of any Options will be payable by the participant.

(i) *Shares issued on exercise of options*

Ordinary Shares allotted under the Plan rank *pari passu* with the Company's existing issued Ordinary Shares (save that they will not qualify for any dividends or other distributions by reference to a record date prior to the date of exercise of the Option).

(j) *Takeovers*

In the event of a takeover, amalgamation or reconstruction of the Company, Options may be exercised in full. Alternatively, with the agreement of the acquiring company, Options may be exchanged for options over shares in the acquiring company. Where Options are exercised following a change of control, performance targets shall not apply.

(k) *Variation of share capital*

In the event of a variation of share capital by way of capitalisation, rights issue, sub-division, consolidation or reduction of share capital or otherwise, then the number of Ordinary Shares subject to a subsisting Option and the price payable on exercise may be adjusted.

(l) *Alterations to the Plan*

The Board may alter the Plan but material amendments to the advantage of participants cannot take effect without shareholder approval, unless they are amendments to comply with or take account of applicable legislation or statutory regulations or any change therein or to maintain favourable taxation treatment for the Company or participants or potential participants.

(m) *Pension rights*

None of the benefits which may be received under the Plan shall be pensionable.

8. Working Capital

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group is sufficient for its present requirements, that is for at least the twelve months from the date of Admission.

9. Litigation

There are no legal or arbitration proceedings, active, pending or threatened against, or being brought by, the Company or any member of the Group which are having or may have a significant effect on the financial position of the Company.

10. Taxation of dividends

The comments set out below are based on existing law and what is understood to be current Inland Revenue practice. They are intended as a general guide only and apply only to shareholders who are resident in the United Kingdom for tax purposes (except to the extent that specific reference is made to shareholders resident outside the United Kingdom), who hold ordinary shares as investments and who are the absolute beneficial owners of those shares. Any person who is in any doubt as to their taxation position or who is

subject to taxation in any jurisdiction other than the United Kingdom, should consult their own professional advisers immediately. This summary is not exhaustive and does not generally consider tax reliefs or exemptions. This paper does not comment on the tax consequences which may apply to holders of options over shares of the Company.

Taxation of dividends

The Company will not be required to withhold tax at source when paying a dividend.

UK resident shareholders

A UK tax resident individual shareholder, who is ordinarily resident or not, will be subject to UK income tax on the gross dividend received regardless of their domicile status. This will be included in calculating the shareholder's total income for UK tax purposes and will be taxed at a rate of 10 per cent. in the case of a lower rate or basic rate taxpayer, or 32.5 per cent. in the case of a higher rate taxpayer.

UK resident shareholders who receive a dividend from the Company will generally be entitled to a tax credit which such shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to ten per cent. of the aggregate of the dividend and the tax credit (the "gross" dividend), which is also equal to one-ninth of the cash dividend received. A UK resident individual shareholder who is liable to income tax at the starting or basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full any shareholder's liability to income tax on the dividend.

UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

Subject to certain exceptions for traders in securities, a shareholder which is a company resident for tax purposes in the UK and which receives a dividend paid by another company resident for tax purposes in the UK will not generally have to pay corporation tax in respect of it. Such shareholders will not be able to claim repayment of tax credits attaching to dividends.

Non-UK resident shareholders

A shareholder not resident in the UK for tax purposes may be subject to foreign tax on the dividend received. Such a shareholder should consult their own tax adviser on the incidence of tax in the country in which they are resident for tax purposes, as to whether they are entitled to the benefit of any tax credit and the procedure for claiming repayment.

UK Taxation of chargeable gains

A disposal, or deemed disposal, of shares in the Company by a shareholder who is either resident or ordinarily resident for tax purposes in the UK in the relevant year of assessment will, depending on the shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains in the UK.

Broadly, shareholders who are not resident and are not ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised on the disposal of their shares unless such shares are used, held or acquired for the purposes of a trade, profession or vocation or, in the case of companies only, a permanent establishment, carried on in the UK through a branch or agency or for the purpose of such branch or agency. Such shareholders may be subject to foreign taxation on any gain under local law.

A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five complete tax years and who disposes of the shares during that period may also be liable to UK taxation of chargeable gains (subject to any available exemption or relief) as if, broadly, the disposal was made in such shareholder's year of return to the UK unless the shares were acquired at a time when the shareholder was neither resident nor ordinarily resident in the UK.

For UK shareholders who are individuals, taper relief may reduce the proportion of any gain realised on the disposal of the shares that is subject to capital gains tax. For the purposes of taper relief on chargeable gains (available to UK tax resident individuals and trustees but not to companies), shares traded on AIM are treated as unquoted shares. Subject to the satisfaction of certain conditions, for example, whether the shares are in a trading company, both employees and non-employees may qualify for more generous taper relief. This would need to be reviewed on a case by case basis.

UK shareholders who are individuals are entitled to an annual exempt amount (£8,200 in 2004-05) of total net capital gains.

A UK shareholder that is a company is entitled to an indexation allowance, which effectively applies to increase the tax basis in the shares in line with the rate of increase in the UK Retail Prices Index. Indexation allowance may reduce a capital gain but may not create or increase any allowable loss.

Stamp Duty

No stamp duty should be payable on the issue of the shares. However, shares purchased from existing shareholders should be subject to stamp duty at the rate of 0.5 per cent. of the value of the consideration.

11. Placing Agreement

Under an agreement made between the Company, the Directors, Daniel Shields and KBC Peel Hunt and dated 24 March 2005, KBC Peel Hunt has agreed:

- (i) to use reasonable endeavours to procure subscribers for 4,000,000 new Ordinary Shares. The Placing Agreement provides, *inter alia*, for the payment by the Company to KBC Peel Hunt (whether or not the Placing Agreement becomes unconditional) of a commission of 3 per cent. of a sum equal to the issue price multiplied by the number of new Ordinary Shares for which KBC Peel Hunt procures subscribers; and
- (ii) to use reasonable endeavours to procure purchasers for 6,005,076 existing Ordinary Shares proposed to be sold by SG Shields and Daniel Shields pursuant to the Placing. The Placing Agreement provides, *inter alia*, for the payment by SG Shields and Daniel Shields to KBC Peel Hunt of a commission of 3 per cent. of a sum equal to the Placing Price multiplied by the number of Ordinary Shares for which KBC Peel Hunt procures purchasers on their behalf.

Under the Placing Agreement and conditional upon Admission, the Company shall pay to KBC Peel Hunt for its services a fee of £200,000 (exclusive of VAT) and shall reimburse KBC Peel Hunt against all costs and expenses incurred in connection with the Placing and Admission.

The obligations of the parties under the Placing Agreement are conditional upon certain conditions having been fulfilled (or waived by KBC Peel Hunt) by 8.00 a.m. on 31 March 2005, or such later date as may be agreed by KBC Peel Hunt, the Company and the Directors (being not later than 7 April 2005). Such conditions include Admission, there being no breach of warranties given to KBC Peel Hunt prior to Admission and certain *force majeure* events not occurring prior to Admission. The agreement contains certain representations and warranties by the Company and the Directors as to the accuracy of the information contained in this document and other matters relating to the Company and its business. The Company has indemnified KBC Peel Hunt against all losses, costs, charges and expenses which KBC Peel Hunt may suffer or incur as a result of, occasioned by or attributable to the carrying out of its duties under the Placing Agreement.

12. Material Contracts

- (a) A deed of termination between the Company, Sydney Gordon Shields and others, the Governor and Company of the Bank of Scotland and Uberior Investments plc dated 24 March 2005 pursuant to which the parties terminated the investment agreement referred to in paragraph 12(c) below and released each other from all future liabilities under the agreement.

- (b) A de-merger agreement dated 15 September 2004 entered into between Broomco (3470) Limited (in liquidation), the Company, Shields Environmental Group (Holdings) Limited, Peter Engel (as liquidator) and the shareholders of Broomco (3470) Limited (in liquidation). Under the terms of this agreement the Company acquired the Fonebak business and assets together with the entire issued share capital of Shields Environmental S.A.R.L. and Shields Environmental GmbH, 99.5 per cent. of the issued share capital in Shields Environmental S.A. and 83.125 per cent. of the issued share capital of Fonebak Servicii s.r.l. (“Servicii”) from Broomco (3470) Limited in consideration for the issue by the Company of ordinary shares to certain of the shareholders of Broomco (3470) Limited. Under the terms of the agreement the Company jointly and severally indemnified the liquidator of Broomco (3470) Limited, Broomco (3470) Limited and Solomon Hare LLP for any loss suffered by any of them in relation to the appointment of the liquidator and the liquidation of Broomco (3470) Limited. Further, under the terms of this agreement, the Company assumed the obligations of Broomco (3470) Limited under a share purchase agreement also dated 15 September 2004 under which Broomco (3470) Limited agreed to indemnify SEG in respect of its obligations to pay deferred and additional consideration under the terms of the share sale and purchase agreement summarised at paragraph 12(f) including SEG’s obligation to pay the sum of £161,875 on redemption of certain loan notes issued by SEG in connection with the acquisition of the shares in Servicii.
- (c) An investment agreement relating to the Company dated 15 September 2004 entered into between the Company, Gordon Shields and others, the Governor and Company of the Bank of Scotland and Uberior Investments plc. Under the terms of the agreement the Company received the benefit of certain indemnities and warranties. This agreement and any liabilities of the Company under it (including but not limited to in respect of any warranties contained in the agreement) will terminate on and from Admission.
- (d) A disclosure letter dated 15 September 2004 from the Shields Warrantors (as defined in the investment agreement) to the Company, the Governor and Company of the Bank of Scotland and Uberior Investments plc under which the Shields Warrantors disclosed certain matters in respect of certain warranties contained in the investment agreement referred to in the preceding sub-paragraph.
- (e) A trade mark assignment deed dated 15 September 2004 entered into between Broomco (3470) Limited (in liquidation), the Company and Peter Engel (as liquidator) under the terms of which certain trade marks and trade mark applications relating to the Fonebak name and mark were assigned to the Company.
- (f) A share sale and purchase agreement dated 19 September 2003 entered into between Stephen Levy and others, James Poulton and SEG under the terms of which SEG acquired 83.125 per cent. of the entire issued share capital of Fonebak Servicii s.r.l. and which was subsequently assigned to the Company on 21 March 2005. Certain additional consideration will become payable by the Company to the vendors upon Admission and such consideration is described in detail in note 17 of the Accountants’ Report in Part III.

13. Other information

- (a) The expenses of the Placing (including the amount payable to Matthew Turner as further described in paragraph (i) below) are estimated at approximately £1.2 million, excluding VAT.
- (b) The minimum amount which, in the opinion of the Directors, must be raised by the Company under the Placing to provide the sums required in respect of the matters specified in paragraph 21(a) of Schedule 1 to the POS Regulations is £5.0 million, which will be applied as follows:
 - (i) the purchase price of any property purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the Placing – approximately £0.5 million;
 - (ii) any preliminary expenses payable by the Company and any commission so payable to any person in consideration of his agreeing to subscribe for, or of his procuring or agreeing to procure subscriptions for, any Ordinary Shares – approximately £150,000 (excluding VAT);

- (iii) the repayment of any money by the Company in respect of any of the matters referred to in (i) or (ii) above – £nil; and
- (iv) working capital – £4.35 million.
- (c) The Ordinary Shares are not currently admitted to dealings on a recognised investment exchange and, other than the Company's application for the Ordinary Shares, both issued and to be issued under the Placing, to be admitted to trading on AIM, no applications for such admission have been made.
- (d) The Placing Price of 125 pence represents a premium of 123 pence above the nominal value of 2 pence per Ordinary Share. The Placing Price is payable in full on application.
- (e) KBC Peel Hunt has given and not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which it appears.
- (f) There have been no interruptions in the Group's business which may have or have had in the last 12 months a significant effect on the Group's financial position.
- (g) There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.
- (h) Save as disclosed in this document there has been no significant change in the trading or financial position of the Group since 31 December 2004, being the date of the financial information contained in the unaudited interim results of the Group for the six months ended 31 December 2004 in Part IV of this document.
- (i) Matthew Turner will be paid a fee of £250,000 in connection with the provision of consultancy services to the Company relating to the Admission. Save as described in this paragraph or detailed elsewhere in this document, no person (excluding professional advisers and trade suppliers) has received, directly or indirectly, from the Company within the twelve months preceding the Company's application for Admission, and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:
 - (i) fees totalling £10,000 or more;
 - (ii) securities in the Company with a value of £10,000 or more calculated by reference to a share price of £1; or
 - (iii) any other benefit with a value of £10,000 or more at the date of Admission.
- (j) The financial information relating to the Group contained in this document does not constitute statutory accounts within the meaning of section 240 of the Act. The Company was incorporated on 27 April 2004 and its first financial period will end on 30 June 2005. Consequently no audited financial statements for the Company have yet been prepared.

14. Availability of this document

Copies of this document will be available to the public free of charge from the registered office of the Company, at Unit 2, Eurocourt, Oliver Close, West Thurrock, Essex and from the offices of KBC Peel Hunt, at 4th Floor, 111 Old Broad Street, London EC2N 1PH, during normal office hours, Saturdays and Sundays excepted, from the date of this document until the date which is one month following Admission.

24 March 2005