

# Medsea Estates Group PLC

Admission to trading on AIM





Inside front cover



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**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 United Kingdom 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. Your attention is drawn to the section headed "Risk Factors" in Part II of this Document.**

**The Directors of the Company (whose names appear on page 3 herein) accept responsibility, both individually and collectively, for the information contained in this Document, and for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Document is in accordance with the facts and there are no other facts which, if omitted, would affect the import of such information. All Directors accept responsibility accordingly.**

**It is emphasised that no application is being made for admission of Ordinary Shares to the Official List of the United Kingdom Listing Authority. Further, London Stock Exchange plc has not itself examined or approved the contents of this Document.** The Ordinary Shares are not dealt in or on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to dealing on any such exchange. In connection with this Document, no person is authorised to give any information or make any representations other than as contained in this Document. Application has been made for all the Ordinary Shares to be admitted to trading on AIM and it is expected that Admission will become effective and that the dealings in the Ordinary Shares on AIM will commence on 4 August 2004.

This document does not constitute a prospectus for the purposes of the POS Regulations and a copy has not been delivered to the Registrar of Companies in England and Wales pursuant to Regulation 4(2) of such POS Regulations. **This document does not constitute an offer or invitation to purchase any securities.**

## Medsea Estates Group PLC

(Incorporated in England & Wales under the Companies Act 1985 with Registered Number 05123368)

### Admission to trading on AIM

#### Nominated Adviser

**Beaumont Cornish Limited**



#### Broker

**Midas Investment Management Limited**



#### Share Capital following the Admission

Authorised	Number		Issued and Fully Paid	Number
£10,000,000	100,000,000	in Ordinary Shares of 10p each	£7,062,941	70,629,412

The Ordinary Shares have not been, nor will they be, registered under the US Securities Act of 1933, as amended, or under any applicable securities laws of Australia, the Republic of Ireland, South Africa, Canada or Japan. The Ordinary Shares may not be offered or sold or delivered, directly or indirectly, in or into the United States, Australia, the Republic of Ireland, South Africa, Canada or Japan. This Document must not be mailed or otherwise distributed or sent to or into the United States, Australia, the Republic of Ireland, South Africa, Canada or Japan (including their territories, possessions and all areas subject to their jurisdiction) or any other country where its distribution would require compliance by the Company with any governmental or regulatory procedure or any similar formalities. This Document does not constitute an offer for, or the solicitation of an offer to subscribe for or buy, any of the Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

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## Directors, Secretary and Advisers

### **Directors**

Tony Gatehouse, Chairman  
Juan Carlos Rodriguez Martinez, Chief Executive  
Alberto Manuel Gil, Finance Director  
Kenneth Guy Burrage, Non-Executive Director

### **Registered Office**

Suite 303, Park House, 22 Park Street, Croydon, Surrey CR0 1YE

### **Company Secretary**

Robert Andrew MacDonald Watson

### **Nominated Adviser**

Beaumont Cornish Limited  
Georgian House, 63 Coleman Street  
London EC2R 5BB

### **Broker**

Midas Investment Management Ltd  
Arthur House, Chorlton Street  
Manchester M1 3FH

### **Solicitors to Company**

Howard Kennedy  
19 Cavendish Square  
London W1A 2AW

### **Fiscal and Accountancy Adviser to Medsea**

Garrigues  
San Fernando, 57, 03001 Alicante  
Spain

### **Auditors and Reporting Accountants**

Spofforths  
Courtyard House, 30 Worthing Road  
Horsham  
West Sussex RH12 1SL

### **Registrars**

Capita Registrars Plc  
The Registry, 34 Beckenham Road  
Beckenham, Kent BR3 4TU

### **Bankers**

Royal Bank of Scotland  
280 Bishopsgate  
London EC2M 4RB

# Definitions

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

<b>“Accountants’ Reports”</b>	the accountants’ reports relating to the Group, including the letter and related notes thereto, set out in Part III of this document
<b>“Act”</b>	the Companies Act 1985, as amended
<b>“Admission”</b>	the admission of the Ordinary Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules
<b>“AIM”</b>	AIM, a market operated by the London Stock Exchange
<b>“AIM Rules”</b>	the rules of the London Stock Exchange governing admission to, and operation of, AIM
<b>“Beaumont Cornish”</b>	Beaumont Cornish Limited, which is authorised and regulated by the FSA
<b>“Certificated” or “in certificated form”</b>	a share or other security which is not in uncertificated form
<b>“Combined Code”</b>	the principles of good governance and the code of best practice issued by the London Stock Exchange
<b>“Company” or “Medsea”</b>	Medsea Estates Group PLC, a company incorporated on England & Wales with Company number 05123368
<b>“CREST”</b>	the computerised settlement system used to facilitate the transfer of title to shares in uncertificated form operated by CRESTCo Limited
<b>“Directors” or “Board”</b>	the directors of the Company, whose names appear on page 3 of this document
<b>“Document”</b>	this document
<b>“Euro” or “€”</b>	means the unit of common currency adopted by certain member countries of the European Union, administered by the European System of Central Banks with effect from 1 January 1999
<b>“Financial Services and Markets Act” or “FSMA”</b>	the Financial Services and Markets Act 2000
<b>“FSA”</b>	the Financial Services Authority
<b>“UK GAAP”</b>	generally accepted accounting principles in the UK
<b>“Group” or “Medsea Estates Group”</b>	the Company and its subsidiary undertakings and/or (where the context requires) any one or more of them
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Midas”</b>	Midas Investment Management Limited, authorised and regulated by the FSA
<b>“Official List”</b>	the Official List of the UK Listing Authority, being the FSA, acting in its capacity as the competent authority for the purposes of Part 8 of the FSMA
<b>“Ordinary Shares”</b>	the ordinary shares of 10p each in the capital of the Company
<b>“POS Regulations”</b>	The Public Offers of Securities Regulations 1995 (as amended)
<b>“Shareholders”</b>	holders of Ordinary Shares
<b>“UK”</b>	United Kingdom of Great Britain and Northern Ireland
<b>“Uncertificated” or “in uncertificated form”</b>	Recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
<b>“£” or “Pound”</b>	Pounds Sterling

# Key Points

*The following information is derived from and should be read in conjunction with the full text of this document*

The ordinary shares in Medsea Estates Group PLC, a property estate agency based in Spain, are to be admitted to AIM.

- The demand for property in Spain is forecast to grow substantially over the next ten years as increasing numbers of Northern Europeans retire to warmer climates. According to an Alliance & Leicester International report dated 2003, by the year 2020, one in five older people will be living outside the UK, the vast majority in Spain. Spain is the leading country for the many Europeans who desire a property as a holiday home or investment, which has led to a doubling in prices in many parts of the country over the past eight years. Also, younger families are choosing to build a new life in Spain. Medsea Estates is in a very favourable position, the

Directors believe, to take advantage of this expanding sector.

- The Medsea brand is well established in Spain. Already a leading residential estate agent in Costa Almeria, the Company intends to become one of the largest by turnover in the Costa Blanca within two years.
- Medsea has a distinctive and successful working model. In the two years ended 31 December 2003 the Group's turnover has increased by 226 per cent to €17.4 million, which can be attributed, in part, to a refined and meticulous service, organised management structure, an expanding agency base and a conversion ratio of clients up to 65 per cent.
- Tony Gatehouse, the Chairman, draws upon more than 20 years of experience of the property market in Spain, and the Company's specialist staff are recognised for their knowledge and experience of the market.
- The Company is constantly seeking new strategic locations for its outlets in Spain, as well as identifying fresh, innovative and profitable areas in which to expand.
- The intention is for the Group to link more closely with independent estate agents in the UK. This will significantly broaden and enhance the presence of Medsea in the UK, which is the leading second-home market place in Europe. The Directors believe that this will enable the Group to expand its business and that agents in other markets and locations would also find such an association useful.

The financial record of the Group for the three years ended 31 December 2003, is as set out below:

	Year ended 31 Dec 2001 €'000	Year ended 31 Dec 2002 €'000	Year ended 31 Dec 2003 €'000
Turnover	5,323	7,678	17,376
Gross Profit	1,527	1,954	4,843
Profit Before Tax	2,769	1,018	2,796

This table has been extracted from the Accountants' Report on the Medsea Group set out in Part III of the document.

# Part 1: Information on The Company

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## INTRODUCTION

Medsea Estates S.L. was established by Tony Gatehouse in December 1998, to service the marketplace of the increasing number of UK and Irish nationals looking to acquire residential properties in Spain. In the five and half years since that time, new subsidiary companies have been established and the Group has expanded rapidly. The core activity of the Group continues to be to act as an intermediary between developers in Spain and property agents in the UK and Ireland for the sale of residential properties.

Commissions are generated on each sale, receivable from the developer or promoter, out of which commissions are payable by Medsea to the UK and Irish property agents.

Tony Gatehouse, together with his wife, has a controlling interest in the Group (77.31 per cent) and Juan Carlos Rodriguez Martinez, the Managing Director, owns 13.64 per cent.

The Company seeks an introduction to trading on AIM and it is the Directors' intention to use this as a base from which to expand the Group's activities. In addition, the Directors believe that there will be opportunities available to link more closely with the Group's UK and Irish agents by offering them shares in the Company and undertaking possible acquisitions within the sector.

## THE SPANISH PROPERTY MARKET

It has been estimated that between 700,000 and 800,000 people from the UK have bought homes in Spain, the most popular destination for Britons.

The demand for property in Spain is forecast to grow substantially over the next ten years as increasing numbers of Northern Europeans retire to warmer climates. Over the next ten years 2.3 million people aged over 50, one in eight of the population, will be leaving Britain to retire abroad according to an Alliance & Leicester International report in 2003. By the year 2020, one in five older people will be living outside the UK, the vast majority of these in Spain. The report estimates that it will create a global market for goods and services worth in excess of £100 billion. Countries will offer tax breaks to entice retirees and attract their spending power. The report highlights the growing trend for younger people to work abroad, including Spain. Medsea Estates Group is in a very favourable position, the Directors believe, to take advantage of this relocation.

The Directors believe that the demand for homes and a combination of low interest rates, low unemployment and the introduction of the euro, has resulted in substantial rises in both the number of properties sold and the price levels achieved. Average prices in many parts of Spain have doubled in the past eight years. Estimates show that in the regions in which Medsea Estates Group operates, prices rose by more than 60 per cent between 1998 and 2002. The Directors believe that this has contributed to an increase in sales of property for investment purposes, which places the Group in an exceptional position to take advantage of this opportunity.

The considerable demand for property means that the great majority of the homes sold are, in the Directors' experience, 'off-plan'. Also, these modern developments often feature

restaurants, a swimming pool, a bus service and international school, all of which add to the sense of community among the residents. In recent years, the Directors have observed a particular interest in and demand for developments adjacent to a golf course. With its five offices spread across one of the leading and fastest growing golfing regions of Spain, the Directors believe that Medsea Estates Group has already benefited from this attraction, and anticipate that it will continue to do so.

## MEDSEA'S BUSINESS

### Overview of Operations

The Group's main activity is arranging the sale of new residential properties in Southern Spain to UK and Irish residents. A commission is generated on each sale, receivable from the developer. The majority of buyers are introduced via a network of UK and Irish property agents and commissions are payable by the Group to those agents in respect of each completed sale. In addition, the Group acts as an estate agent (dealing with second hand rather than new properties) and receives a commission on properties sold, although this commission is paid by the buyer.

The Group's customers are primarily the developers and promoters with whom the Group enters into mainly non-exclusive agency agreements for the sale of the new properties being built. In addition, the Group enters into commission sharing arrangements with each of its UK and Irish agents who are the source of introductions to buyers of the properties. Whilst the Group effectively manages the relationship between these buyers and the

developers, and ensures that so far as possible the purchase is satisfactorily completed, these buyers are not formally the customers of the Group.

The Group operates in four geographical markets and has expanded into these areas following regional housing development patterns. Growth has moved on from the Group's original market around Torre Vieja and Alicante to the Almeria region, which now accounts for the largest number of properties sold per month. In 2003, an office was opened in the North Costa Blanca region (Torre Vieja being in the South Costa Blanca region) and in 2004, offices were opened in the Costa Tropical and Costa Calida regions.

The company is currently seeking to expand the breadth of its operations in two key areas:

- To broaden the reach of its financial services activities. Although Medsea already receives some commissions in respect of certain mortgage introductions and also on currency exchange transactions, only a small proportion of potential purchasers use those services. Medsea has recruited a full time Financial Adviser to build up these services.
- To act more in the role of a promoter by entering into exclusive arrangements for the sale of properties on prime residential developments, through Euromed Investment S.L. as described below.

### Group activities and locations

The core activities of each of the Group Companies are summarised below:

**Medsea Group S.L.** is the Group holding company and employs senior

management such as Tony Gatehouse and Juan Carlos Rodriguez Martinez.

**Medsea Estates Torre Vieja S.L.** acts as broker for the sale and purchase of new freehold residential properties and operates in the regions of Torre Vieja (near Alicante) and La Manga del Mar Menor (Murcia). The office is situated in Torre Vieja on the Costa Blanca.

**Medsea Estates Almeria S.L.** acts as broker for the sale and purchase of new freehold residential properties and operates in the regions of Aguilas (Murcia), Mojacar and Vera (Almeria). The office is situated in Vera to the South West of Alicante and Torre Vieja.

**Medsea Estates Costa Blanca S.L.** acts as a broker for the sale and purchase of new freehold residential properties and the office is situated in Calpe, based on the Costa Blanca to the North East of Alicante and Benidorm.

**Medsea Estates Costa Tropical S.L.** acts as a broker for the sale and purchase of new freehold residential properties and the office is situated in Almunecar on the Costa Tropical.

**Property Market Torre Vieja S.L.** acts as an agent in the sale and purchase in all of Medsea Estates Group's regions of second hand freehold residential properties, i.e. any property that is not part of a new development and has therefore been lived in before.

**Medsea Financial Services S.L.** has been established to improve revenues from the Group's financial services activities, such as making introductions for mortgages. The company operates from the Torre Vieja office but will have Group-wide responsibilities.

**Euromed Investment S.L.** has been established to broaden the scope of activities undertaken by the Group. Until now, the Group has entered into commission arrangements with developers and promoters to pre-sell properties under construction, but has not been granted exclusivity. The Directors believe that the Group has now achieved a sufficiently strong reputation and is of a size where it may be able to obtain exclusivity from some developers for the sale of properties in prime residential development locations, thereby acting in a promoter-type role itself. The developer gains by having all sales dealt with through a single, reputable agent. Euromed may in turn use other Group companies to sell these properties, but it is likely that sales will also arise through other local agents.

The Directors believe that Euromed will provide other Group companies with a competitive advantage in addition to generating significant revenues of its own. Euromed is based in the Torre Vieja office.

### Method of Operations

Although the Group seeks to maintain strong working relationships both with key developers in Spain and a broad range of agents in the UK and Ireland, the majority of its time and effort is spent on hosting potential buyers and attempting to close sales. The Group has developed a methodical approach to the selling process and, over the last 18 months, has achieved closure rates in the region of 50 per cent to 65 per cent, which the Directors believe is high for the industry. The Medsea brand is well established in Spain and the Group has become a leading residential estate agent in Costa Almeria.

- An agent contacts the Group with details of a potential buyer. Under the terms of a typical contract between agents and the Group, the agent is responsible for vetting potential buyers before they are passed to the Group. This helps to ensure that the Group deals mainly with buyers with a serious intent to purchase and with the ability to fund an initial deposit.
- The Group invites the potential buyer out to Spain and the costs of accommodation and hosting are covered by Medsea. Visits typically last for four days and three nights and during that time the potential buyer is shown a range of properties in their price range. A Medsea representative is assigned to each potential buyer, who will pick them up from the airport, accompany them during their visit and then arrange for transportation back to the airport at the end and generally look after them during their stay. The Directors believe that this one-to-one approach is a major feature of their success. To gain a potential buyer's trust and to act with integrity and professionalism is, the Directors state, one of Medsea's unique selling points. This unique approach to the sales process is seen by the Directors as a direct result of over 20 years experience in the Spanish property market. If the buyers require funding, Medsea will introduce them to a local mortgage provider, from whom Medsea will receive commissions based on introductions made.
- At the end of the visit, it is hoped that the potential buyer will have found an appropriate property and

will sign up to a purchase contract. At that time, a non-refundable deposit, typically in the region of €3,000, is required to be paid by the buyer to the developer. This payment is made directly to the developer and is not collected by Medsea.

- The contract between the developer and the buyer typically requires a further payment by the buyer (usually of 40 per cent to 50 per cent of the purchase price) within four to six weeks, but sometimes significantly longer. Medsea becomes entitled to receive its commission in full at the point that the buyer has made this payment to the developer. The agent also becomes entitled to receive the commission it is due from Medsea at this point. In the event that the buyer fails to make this payment, the contracts for purchase are commonly worded such that they will lapse and have no further impact. In these circumstances neither Medsea nor the agent will receive any commission.
- As the development progresses, Medsea remains in contact with the buyer, updating them with events. As completion nears, Medsea can introduce buyers to insurance companies and local furniture stores etc and these introductions also provide the Group with additional commission income.
- At completion, the remainder of the purchase monies fall due and again this payment is made directly from the buyer to the developer (in some cases there is an intermediate stage payment when the development reaches roof height). Medsea often

accompanies the buyer to the property for a first visit and to help assess whether the property has been properly constructed.

The fact that the potential buyer contracts directly with the developer means that Medsea takes no development risk of its own, other than the risk of bad debt on commissions receivable.

Sales of second hand properties typically take one to two months to complete and Medsea becomes entitled to its commission on completion. These properties are marketed to both local Spaniards and overseas buyers.

At present, the Group focuses very much on selling to UK and Irish residents. However, the Directors believe that in due course it may be necessary to sell in new geographical markets.

## COMPETITION

The Group operates within a highly competitive market, but due to its method of operation, has been able to establish itself as one of the top half dozen leading agents within the area. Of these, it is the only one to work substantially with independent agents in the UK and Ireland, as opposed to having a direct presence there, and therefore, its size and importance within its market is, the Directors believe, far greater than would be recognised immediately within the UK.

The Directors also believe that the Medsea approach, including the direct employment of staff (rather than a commission only sales' force), maintains the Group's competitiveness within the Market.

## FINANCIAL RECORD

The table below summarises key financial information on the Medsea Group that has been extracted from the Accountants' Report set out in Part III of this document:

	Year ended 31 Dec 2001 €'000	Year ended 31 Dec 2002 €'000	Year ended 31 Dec 2003 €'000
Turnover	5,323	7,678	17,376
Gross Profit	1,527	1,954	4,843
Profit Before Tax	2,769	1,018	2,796

The turnover figures relate almost entirely to commissions receivable from the sale of new and second hand properties and turnover as a whole more than doubled in the year ended 31 December 2003. This reflects growth in both the volume and average value of properties sold, although these gains have been partly offset by a decrease in average commission rates as the Group has sought to enter new geographical markets.

Gross profit is stated after deducting commissions payable, the direct salary and vehicle costs of the sales representatives and the costs of hosting potential purchasers. The Directors expect margin percentages to be maintained.

It should be noted that the profit before tax in 2001 was favourably affected by a sale of land by the Group that realised a profit on disposal of €2,155,000. Profit in that year was adversely affected by finance charges in respect of a loan that had been used to initially acquire that land. The charge amounted to approximately €449,000.

In the year ended 31 December 2001, 362 properties were sold, increasing to 714 properties in the following year. In 2003, the Group sold 1,304 properties. Over the same period, the average value of the properties sold increased by more than 40 per cent from €111,000 in 2001 to €157,000 in 2003. The Directors believe that the volume of properties sold and the average sale price will continue to increase during 2004.

## CURRENT TRADING AND FUTURE PROSPECTS

Property sales in the current financial year have commenced well and overall, are ahead of last year. The Directors are particularly pleased with the growing contribution from the office in Almeria and from the new office in Costa Tropical, and hope to be in a position to report progress in the forthcoming interim results.

The Group, as explained above, has through its 95 per cent owned subsidiary Euromed Investments S.L., recently entered into an exclusive contract with a developer for the sale of properties on a prime new development site. Subject to the developer securing the necessary financing for the development, building work and the sale of properties is expected to commence in the current financial year and is expected to complete within two years. The plans indicate that there will be 786 residential properties on the site and the Group will receive commissions at 20 per cent of sale value. The Group will take on the principal marketing role (ie.

effectively act as a promoter) for this development and commissions payable are expected to be in the range of 10 per cent to 15 per cent, although it is hoped that many of the properties will be sold through existing Group companies. At completion of the development, the Group shall also be entitled to a 20 per cent share of any profit that the developer makes.

The Directors believe that this contract was secured as a result of the strong reputation of the Group and the fact that it can offer direct access for the developer to one of the largest distribution networks in the region. The Directors anticipate securing further contracts of this nature and believe that this broadening of the scope of the Group's activities to take on an exclusive promoter type role will significantly enhance the prospects for future growth.

The Group is developing plans to expand into other Mediterranean countries, Greece and its islands, and other suitable locations, using a similar business model to that described above.

**Your attention is drawn to the risk factors set out in Part II of this Document. Potential investors should carefully consider the risks described in Part II before making a decision to invest in the Company.**

## REASONS FOR ADMISSION TO TRADING ON AIM

The Directors believe that the Admission will raise Medsea's profile, and will provide a base from which to expand the Group's activities. The Directors believe that there will be opportunities available to link more closely with the Group's UK and Irish agents by offering them shares

in the Company and undertaking possible acquisitions within the sector.

As a result of Admission, the Directors believe that in the future, the Company will also be able to incentivise key staff by the issuance of share options.

## DIRECTORS, MANAGEMENT AND EMPLOYEES

### Directors

#### Tony Gatehouse, Chairman (aged 66)

Tony is a co-founder of the Medsea Group, is the controlling shareholder and lives in Spain. After running a number of his own businesses, he built up and sold a successful UK-based mortgage brokering business and moved to Spain in 1984. Here, he identified opportunities within the Spanish residential property market where he acted as an intermediary between Spanish developers and UK agents. Over these years, he built up an extensive knowledge of the Spanish property market and was able to establish good working relationships with the local developers and at the same time an understanding of the requirements of the UK buyer. In 1998, he founded Medsea Estates S.L., which he has run and built up ever since.

#### Juan Carlos Rodriguez Martinez, Chief Executive (aged 35)

Juan Carlos joined the Group in 2001 and has overall responsibility for the management of the day-to-day operations of the businesses. He was educated in South Africa where he became an Associate of the Institute of Administration and Commerce of South Africa (Accountancy Branch). He is also a member of the Chartered Institute of Business Management and of the

Chartered Institute of Secretaries in South Africa. After working in South Africa, he worked briefly with a recruiting agency in London before moving to Spain where he held positions as operations and finance manager of New Restaurants of Spain, chief accountant/manager of Castle Travel S.L. and chief accountant/manager of Regalos Totem S.L. before joining the Medsea Group in 2000 as General Manager/Director.

#### Alberto Gil, Finance Director, ACMA (aged 42)

After obtaining a degree in Business Studies from Bournemouth University, he qualified as a Chartered Management Accountant in 1998. He has held a number of management accounting roles, principally in hotels and the leisure industry working for London Clubs PLC and more recently as Group Financial Director and Company Secretary of MBI/MBO Limited and as from June 2003 has been financial controller of Catalyst Investment Group Limited.

#### Ken Burrage, Non-Executive Director, FCA (aged 58)

Ken Burrage is a director of Principal Investment Management Limited, an investment management company regulated by the FSA, Burrage Funds Limited, Suffolk Life PLC, Law Alert Limited and a Fellow of the Institute of Chartered Accountants in England and Wales. From 1977 to 2001 he was a director of R.J. Kiln & Co. Limited, a managing agency at Lloyd's. He was formerly chairman and chief executive of Burrage & Co. Limited and remains a director of Burrage Unit Trust Management Limited, companies regulated by the FSA.

## Management

### **Robert Hosie, sales and marketing director (aged 64)**

Bob has been with Medsea since 1999 and has overall responsibility for the sales teams in each office. He moved to Spain in 1994 and, using his knowledge of the Costa Blanca area, ran a solo property business before joining Medsea in 1999. Prior to moving to Spain, Bob was part of the management team in an architectural hardware group which he helped to take onto the Unlisted Securities Market and then obtain a full listing.

### **Peter McGowran, area sales and training manager (aged 46)**

Peter has day-to-day responsibility for the sales teams and for the training of sales reps. He develops the content of Medsea's training and motivation courses with a view to instilling high levels of professionalism and integrity. Peter has over twenty years of experience in the field both in the UK and internationally.

### **Ismael Parraga Rodriguez, commercial director of Euromed Investment S.L. (aged 29)**

Ismael has worked in residential property businesses for eight and half years and joined Medsea Estates S.L. in March 1998. Working largely in sales, Ismael was instrumental in opening the Almeria office which he grew to 30 sales representatives in the first year.

### **Mike Cormack, senior financial advisor (aged 56)**

Mike joined the group in May 2002 and is responsible for growing the financial services side of the business. Mike has a background in banking having spent nearly twenty years with various banks and building societies, most recently with Bank of Scotland where he was

responsible for the sales and marketing of credit card, personal loan and mortgage products. He subsequently ran his own business before joining Medsea.

## Employees

The Group currently has approximately 150 full-time employees, including the executive Directors and managers referred to above.

## PREMISES

The Group's main office is a 525 square metre freehold building in Torrevieja. In addition, members of the Group operate from rented premises in Vera, Calpe and Almunecar.

## SHARE OPTION SCHEMES

It is the Directors' intention to introduce a Group employee share option scheme at some time in the future.

## DIVIDEND POLICY

The Directors intend, for the immediate future, to retain all profits within the Group to provide a base for further expansion. Longer term, particularly if the shareholder base of the Company has been extended, the Directors will consider implementing an appropriate dividend policy. The declaration, amount and payment of any future dividends by the Company will be dependent upon the Group's results, financial position, cash requirements, future prospects, profits available for distribution and other factors considered by the Directors to be relevant at the time.

## RESTRICTIONS ON THE DISPOSAL OF SHARES

All of the executive Directors who hold Ordinary Shares in the Company have

undertaken not to dispose of any Ordinary Shares for a period of twenty four months from Admission without the prior permission of Beaumont Cornish and in any event not before the publication of the audited accounts for the year ending 31 December 2004. In addition, certain other shareholders have given undertakings not to dispose of shares. Further details are set out in paragraph 8 of Part IV of this Document.

## FINANCIAL REPORTING

On the basis that the Group's trading activities are currently carried out exclusively in Spain and that the majority of the Group's trading transactions are denominated in Euros, the Group intends to report in that currency. The accounting year-end of the Group is 31 December.

Part III of this document includes three Accountants' Reports. The Directors have adopted UK GAAP for the purposes of the financial information set out in those Accountants' Reports, but are currently carrying out an exercise to consider the impact of adopting International Financial Reporting Standards ("IFRS"). The Group will be required to adopt IFRS for its December 2005 year end.

Medsea UK Limited and Medsea Estates Group PLC have been incorporated as part of a recent group reorganisation to act as intermediate and ultimate holding companies in the UK and, whilst these companies have not traded since incorporation, brief reports on them have been prepared.

The Accountants' Report on Medsea Group S.L. sets out the trading results of the Group for the three years ended 31 December 2003. As described in that report, during those three years Medsea Estates Almeria was held outside of the

legal group headed by Medsea Group S.L. but was under common management and control. The Accountants' Report aggregates the profits, losses, assets and liabilities of Medsea Estates Almeria with those of the legal group headed by Medsea Group S.L. as this provides the clearest presentation of the historical performance of the Group as it currently exists. However, it should be noted that for statutory reporting purposes the subsequent acquisition of Medsea Estates Almeria by Medsea Group S.L. will be accounted for using the acquisition method of accounting. The consolidated Group profit and loss account for the current financial year (and for the interim results to 30 June 2004) will therefore only include the results of Medsea Estates Almeria S.L. since the date of its acquisition on 3 March 2004.

The next financial report to be issued by the Group will be the unaudited interim results for the six months to 30 June 2004, which under AIM Rules must be announced by 30 September 2004.

### **CREST**

Application has been made for the Ordinary Shares to be admitted to CREST, the computerised share transfer and settlement system. The system allows shares and other securities to be held in electronic form rather than paper form, although a shareholder can continue dealing based on share certificates and stock transfer forms. For private investors who do not trade frequently this latter course is likely to be more cost effective. For more information concerning CREST shareholders should contact their broker or, alternatively, CRESTCo Limited at 33 Cannon Street, London EC4M 5SB.

## **CORPORATE GOVERNANCE**

The Directors acknowledge the importance of the Principles set out in The Combined Code issued by the Committee on Corporate Governance. Although the Combined Code is not compulsory for AIM companies, the Directors intend to apply these principles as far as practicable and appropriate for a relatively small public company as follows:

### **The Board of Directors**

The Board intends to meet regularly and is responsible for strategy, performance, approval of major capital projects and the framework of internal controls. The Board has a formal schedule of matters specifically reserved to it for decision. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Articles provide that Directors will be subject to re-election at the first opportunity after their appointment and the Board will voluntarily submit to re-election at intervals of three years.

### **Audit Committee**

The Audit Committee comprises the members of the Board under the Chairmanship of the independent non-executive Director, Ken Burrage. The Audit Committee will meet at least twice a year and considers the appointment and fees of the external auditors and discusses the scope of the audit and its findings. The Committee is also responsible for monitoring compliance

with accounting and legal requirements and for reviewing the annual and interim financial statements prior to their submission for approval by the Board.

### **Remuneration Committee**

The Remuneration Committee currently comprises the members of the Board under the Chairmanship of the independent non-executive Director, Ken Burrage. The Committee's role is to consider and approve the remuneration and benefits of the Executive Directors. In framing the Company's remuneration policy, the Remuneration Committee has given full consideration to Section B of The Combined Code.

### **Internal Financial Control**

The Board is responsible for establishing and maintaining the Group's system of internal financial control and places importance on maintaining a strong control environment. The key procedures which the Directors have established with a view to providing effective internal financial control are as follows:

- The Group's organisational structure has clear lines of responsibility;
- The Group will prepare a comprehensive annual budget for approval by the Board. Quarterly results are to be reported against the budget and variances closely monitored by the Directors; and
- The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate courses of action to manage those risks.

The Directors recognise, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material

misstatement or loss. The Directors have reviewed the effectiveness of the system of internal financial control as it operated during the period to 31 December 2003.

### Service Contracts

Details of the Directors' service contracts are set out in paragraph 5.3 of Part IV of this Document.

### Model Code

The Company has adopted and will operate a share dealing code for Directors and senior executives on the same terms as the London Stock Exchange Model Code for companies whose shares have been admitted to AIM.

### TAXATION

General information relating to UK taxation with regards to the Admission is summarised in paragraph 10 of Part IV of this Document. **A potential shareholder who is in any doubt as to his or her tax position, or is subject to tax in a jurisdiction other than the UK, should consult his or her professional advisers immediately.**

### ADMISSION AND DEALINGS

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will take place and that dealings on AIM will commence at 8.00 a.m. on 4 August 2004.

### THE CITY CODE ON TAKEOVERS AND MERGERS

The City Code on Takeovers and Mergers ("the Code") is issued on behalf of the Panel on Takeovers and Mergers ("the Panel"). The Code is designed principally to ensure fair and equal

treatment of all shareholders in relation to takeovers. The Code also provides an orderly framework within which takeovers are conducted. The Code is not concerned with the financial or commercial advantages or disadvantages of the takeover which are matters for the company and its shareholders. The Code has not, and does not seek to have, the force of law. However, the Code has been acknowledged by both governments and other regulatory authorities to set standards in matters relating to takeovers which companies and practitioners in the United Kingdom securities markets should comply with. In particular, the Code has been endorsed by the Financial Services Authority for certain purposes under the Financial Services and Markets Act. The Panel operates in accordance with the requirements of the Human Rights Act 1998.

The Code applies to offers for all listed and unlisted public companies considered by the Panel to be resident in the United Kingdom, the Channel Islands, or the Isle of Man. Having regard to the place where the business of the Group is carried out and the residence of the Executive Directors, it is possible that the Company will be considered by the Panel to be not resident in the United Kingdom. Whether or not the Company is subject to the Code will depend on the circumstances of the Company and other material factors at the relevant time. For this reason, the Company and its advisors have neither sought nor obtained a ruling from the Panel Executive in this regard.

Should the Code not apply to the Company, **investors should be aware that the normal protections afforded to shareholders by the provisions of**

**the Code will not be applicable in the case of the Company.** A particular example of a protection afforded by the Code is contained in Rule 9 of the Code. Under Rule 9.1, except with the consent of the Panel, when:

- (a) any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of a company; or
- (b) any person who, together with persons acting in concert with him, holds not less than 30% but more than 50% of the voting rights and such person, or any person acting in concert with him, acquires additional shares which increase his percentage of the voting rights,

such persons shall extend offers, on the basis set out in Rules 9.3, 9.4, and 9.5, to the holders of any class of equity share capital whether voting or non-voting, and also to the holders of any class of voting non-equity share capital in which such person or persons acting in concert with him hold shares.

The above description is intended as a summary only of the nature and effect of the Code and for further information, reference should be made to the full text of the Code as published and amended from time to time by the Panel.

### FURTHER INFORMATION

Your attention is drawn to the additional information set out in Parts II to IV of this Document. Prospective investors are advised to read the entirety of this Document and not rely solely on the information set out in Part I of this Document.

# Part 2: Risk Factors

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

## 1. Property Market

### Spain

It is possible that the Spanish market in villa developments has now reached the point where there is too much housing stock which may result in slower growth or a decline in property prices.

### UK and Ireland

The ability of buyers to fund the acquisition of overseas property could be adversely affected by any serious downturn in the UK or Irish domestic property markets or economies in general.

## 2. Dependence on key personnel

The success of the Company is dependent upon the performance of its current Directors and executive management. Whilst the Company has entered into contractual arrangements with the aim of securing the services of the existing Directors and executive management team, the retention of their services cannot be guaranteed. Accordingly, the loss of any key member of the executive management team of the Group may have a material adverse effect on the future of the Group's business. Furthermore, the Group is dependent upon being able to recruit and retain staff suitable for its operations.

## 3. Competitive market

The market for Spanish villa developments is highly competitive and is characterized by an increasing number of entrants that have introduced or developed properties similar to those offered by the Group. These competitors may be able to adapt to changes in customer requirements more quickly and adopt more competitive pricing policies than the Group. This intense competition may affect the commissions the Group is able to charge, limit the profitability of the Group or result in a loss in the Group's market share.

## 4. Potential currency exchange rate risk

Historically, the Group's revenue, expenses and liabilities have been mainly denominated in euros and pounds sterling. As a result, the Group will be subject to the effects of exchange rate fluctuations between to these currencies.

## 5. Key Business Relationships

The Group is dependent upon its key business relationships with its UK and Irish agents, and with the developers.

## 6. AIM

The Ordinary Shares will be admitted to AIM. An investment in shares traded on AIM may be less liquid and may carry a higher risk than an investment in shares quoted on the Official List.

## 7. Volatility of the value of the shares

Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment, especially as the market in Ordinary Shares on AIM may have limited liquidity. In addition, the price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. Investors may realise less than the original amount invested.

## 8. Panel of Takeover and Mergers

Investors should be aware that the shareholder protection provisions of the City Code on Takeover and Mergers may not apply to the Company.

## Part 3: Accountants' Reports

Set out below are Accountants' Reports on Medsea Estates Group PLC and Medsea UK Limited, which have been incorporated as part of a recent Group reorganisation to act as ultimate and intermediate holding companies in the UK, together with the Accountants' Report on Medsea Group S.L., which comprises all the trading activities of the Group:

29 July 2004

The Directors  
Medsea Estates Group PLC  
Suite 303  
Park House  
22 Park Street  
Croydon  
Surrey  
CR0 1YE

The Directors  
Beaumont Cornish Limited  
Georgian House  
63 Coleman Street  
London  
EC2R 5BB

Dear Sirs



### **MEDSEA ESTATES GROUP PLC ("MEDSEA ESTATES")**

We report on the financial information on Medsea Estates set out below. This financial information has been prepared for inclusion in the AIM Admission Document dated 29 July 2004 of Medsea Estates ("the AIM Admission Document").

#### **Basis of preparation**

The financial information set out below, which has been prepared in accordance with applicable United Kingdom generally accepted accounting principles, is based on the audited non-statutory financial statements of Medsea Estates for the period from incorporation on 10 May 2004 (see Note 2 below) to 30 June 2004 ("the financial statements"), to which no adjustments were considered necessary.

#### **Responsibility**

The financial statements are the responsibility of the Directors of Medsea Estates who approved their issue.

The Directors of Medsea Estates are responsible for the contents of the AIM Admission Document in which this report is included.

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

#### **Basis of opinion**

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

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

**Opinion**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document, a true and fair view of the state of affairs of Medsea Estates Group PLC as at 30 June 2004.

We consent to the inclusion of this report in the AIM Admission Document and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

**BALANCE SHEET**

	<i>30 June 2004 £</i>
<b>Net assets</b>	— <hr/> <hr/>
<b>Capital</b>	
Uncalled share capital (Note 3)	— <hr/> <hr/>

## Notes to the Financial Information

### 1 Accounting convention

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

### 2 History

The Company was incorporated on 10 May 2004 as Medsea Group PLC and changed its name to Medsea Estates Group PLC on 13 July 2004. It has not traded and no dividends have been declared or paid. Accordingly no profit and loss account is presented. In addition the Company had received no cash at the balance sheet date and accordingly no cash flow statement is presented.

### 3 Share capital

	<i>Number</i>	<i>£</i>
<b>Ordinary shares of £1 each</b>		
Authorised	50,000	50,000
Issued and uncalled	<u>2</u>	<u>–</u>

On 10 May 2004 the Company issued 2 Ordinary shares of £1 each, uncalled, to the initial subscribers.

### 4 Post balance sheet events

On 12 July 2004 the authorised share capital of the Company was increased to £10,000,000 and each Ordinary share of £1 was sub-divided into 10 Ordinary shares of 10p each.

On 23 July 2004 the Company acquired the whole of the issued share capital of Medsea UK Limited in exchange for the issue by the Company of 70,599,980 new Ordinary Shares of 10p each credited as fully paid.

On 26 July 2004 the Company entered into an arrangement to issue a further 29,412 Ordinary Shares of 10p each at 85p each, on Admission, in settlement of professional fees.

Yours faithfully

Spofforths

**Chartered Accountants**

29 July 2004

The Directors  
Medsea Estates Group PLC  
Suite 303  
Park House  
22 Park Street  
Croydon  
Surrey  
CR0 1YE

The Directors  
Beaumont Cornish Limited  
Georgian House  
63 Coleman Street  
London  
EC2R 5BB

Dear Sirs



Courtyard House  
30 Worthing Road  
Horsham  
West Sussex  
RH12 1SL

### **MEDSEA UK LIMITED ("MEUK")**

We report on the financial information on MEUK set out below. This financial information has been prepared for inclusion in the AIM Admission Document dated 29 July 2004 of Medsea Estates Group PLC ("the AIM Admission Document").

#### **Basis of preparation**

The financial information set out below, which has been prepared in accordance with applicable United Kingdom generally accepted accounting principles, is based on the audited non-statutory financial statements of MEUK for the period from incorporation on 18 June 2004 (see Note 2 below) to 30 June 2004 ("the financial statements"), to which no adjustments were considered necessary.

#### **Responsibility**

The financial statements are the responsibility of the directors of MEUK who approved their issue.

The Directors of Medsea Estates Group PLC are responsible for the contents of the AIM Admission Document in which this report is included.

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

#### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the

preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entities circumstances, consistently applied and adequately disclosed.

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

#### **Opinion**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document, a true and fair view of the state of affairs of Medsea UK Limited as at 30 June 2004.

We consent to the inclusion of this report in the AIM Admission Document and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

#### **BALANCE SHEET**

	<i>30 June 2004</i>
	£
<b>Net assets</b>	—
	<u>          </u>
<b>Capital</b>	
Uncalled share capital (Note 3)	—
	<u>          </u>

## Notes to the Financial Information

### 1 Accounting convention

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

### 2 History

The Company was incorporated on 18 June 2004 as Medsea UK Limited. It has not traded and no dividends have been declared or paid. Accordingly no profit and loss account is presented. In addition the Company had received no cash at the balance sheet date and accordingly no cash flow statement is presented.

### 3 Share capital

	<i>Number</i>	<i>£</i>
<b>Ordinary shares of £1 each</b>		
Authorised	1,000	1,000
Issued and uncalled	1	–

On 18 June 2004 the Company issued 1 ordinary share of £1, uncalled, to the initial subscriber.

### 4 Post balance sheet events

On 16 July 2004 each ordinary share of £1 was subdivided into 1,000 ordinary shares of 0.1p each. On the same date MEUK acquired the whole of the issued share capital of Medsea Group S.L. a private company registered in Spain, in exchange for the issue by MEUK of 90,890 new ordinary shares of 0.1p each.

On 19 July 2004 MEUK issued 9,010 ordinary shares of 0.1p each at par for cash.

On 23 July 2004 the whole of the issued share capital of MEUK was acquired by Medsea Estates Group PLC and MEUK is now a wholly owned subsidiary of Medsea Estates Group PLC.

Yours faithfully

Spofforths

**Chartered Accountants**

29 July 2004

The Directors  
Medsea Estates Group PLC  
Suite 303  
Park House  
22 Park Street  
Croydon  
Surrey  
CR0 1YE

The Directors  
Beaumont Cornish Limited  
Georgian House  
63 Coleman Street  
London  
EC2R 5BB

Dear Sirs



Courtyard House  
30 Worthing Road  
Horsham  
West Sussex  
RH12 1SL

## **MEDSEA GROUP S.L. ("MEDSEA GROUP")**

### **Introduction**

On 23 July 2004 Medsea Estates Group PLC entered into a contract to acquire the whole of the issued share capital of Medsea UK Limited. On 16 July 2004 Medsea UK Limited entered into a contract to acquire the whole of the issued share capital of Medsea Group. We report on the financial information on Medsea Group set out below. This financial information has been prepared for inclusion in the AIM Admission Document dated 29 July 2004 of Medsea Estates Group PLC ("the AIM Admission Document").

### **Basis of preparation**

The financial information set out below, which has been prepared in accordance with applicable United Kingdom generally accepted accounting principles, is based on the audited consolidated financial statements of Medsea Group and its subsidiary undertakings for the three years ended 31 December 2003 and the audited financial statements of Medsea Estates Almeria S.L. ("Medsea Estates Almeria") for the period from incorporation on 2 October 2001 to 31 December 2001 and the two years ended 31 December 2003, to which no adjustments were considered necessary. The financial information has been compiled based on those financial statements as set out under basis of compilation below.

### **Basis of compilation**

During the three years ended 31 December 2003 Medsea Estates Almeria did not form part of the legal group headed by Medsea Group, but both companies were held under common management and control. On 3 March 2004, Medsea Estates Almeria became a wholly owned subsidiary of Medsea Group.

The financial information has been compiled by aggregating the consolidated results, net assets, share capital and reserves of Medsea Group with the results, net assets, share capital and reserves of Medsea Estates Almeria. Eliminations for intercompany transactions and balances have been made as appropriate.

Medsea Group together with its subsidiary undertakings and Medsea Estates Almeria are together referred to as “the Group”.

**Responsibility**

The audited financial statements are the responsibility of the directors of the companies who approved their issue.

The Directors of Medsea Estates Group PLC are responsible for the contents of the AIM Admission Document in which this report is included.

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

**Basis of opinion**

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

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

**Opinion**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits and cash flows for the years then ended.

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

**CONSOLIDATED PROFIT AND LOSS ACCOUNTS**

		Year ended 31 December 2001 €'000	Year ended 31 December 2002 €'000	Year ended 31 December 2003 €'000
	Notes			
<b>Turnover</b>	2	5,323	7,678	17,376
Costs of sales		(3,796)	(5,724)	(12,533)
<b>Gross profit</b>		1,527	1,954	4,843
Administrative expenses		(465)	(914)	(2,021)
		1,062	1,040	2,822
Other operating income	3	2,155	–	–
<b>Operating profit</b>	4	3,217	1,040	2,822
Interest receivable and similar income		3	–	1
Interest payable and similar charges	5	(451)	(22)	(27)
<b>Profit on ordinary activities before taxation</b>		2,769	1,018	2,796
Taxation	6	(957)	(369)	(980)
<b>Retained profit for the year</b>	16	1,812	649	1,816

All results derive from continuing operations of the Group. None of the Group's activities were acquired or discontinued during the above three financial years.

**CONSOLIDATED STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES**

		Year ended 31 December 2001 €'000	Year ended 31 December 2002 €'000	Year ended 31 December 2003 €'000
	Notes			
Profit for the financial year		1,812	649	1,816
Unrealised surplus on revaluation of investment properties	9	–	–	179
<b>Total recognised gains and losses relating to the year</b>		1,812	649	1,995

**CONSOLIDATED BALANCE SHEETS**

		<i>As at 31 December 2001 €'000</i>	<i>As at 31 December 2002 €'000</i>	<i>As at 31 December 2003 €'000</i>
	<i>Notes</i>			
<b>Fixed assets</b>				
Intangible assets	8	3	2	4
Tangible assets	9	1,361	1,368	1,580
		<u>1,364</u>	<u>1,370</u>	<u>1,584</u>
<b>Current assets</b>				
Debtors	11	4,017	3,944	6,980
Cash at bank and in hand		578	452	1,781
		<u>4,595</u>	<u>4,396</u>	<u>8,761</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(3,665)</u>	<u>(2,062)</u>	<u>(4,326)</u>
<b>Net current assets</b>		<u>930</u>	<u>2,334</u>	<u>4,435</u>
<b>Total assets less current liabilities</b>		2,294	3,704	6,019
<b>Creditors: amounts falling due in more than one year</b>	13	(32)	(630)	(422)
<b>Provisions for liabilities and charges</b>	14	<u>(299)</u>	<u>(462)</u>	<u>(990)</u>
<b>Net assets</b>		<u>1,963</u>	<u>2,612</u>	<u>4,607</u>
<b>Capital and reserves</b>				
Called up share capital	15	8	8	8
Capital redemption reserve	16	–	–	–
Revaluation reserve	16	–	–	179
Other reserve	16	2	171	171
Profit and loss account	16	1,953	2,433	4,249
<b>Equity shareholders' funds</b>	17	<u>1,963</u>	<u>2,612</u>	<u>4,607</u>

**CONSOLIDATED CASH FLOW STATEMENTS**

		Year ended 31 December 2001 €'000	Year ended 31 December 2002 €'000	Year ended 31 December 2003 €'000
	Notes			
<b>Net cash inflow from operating activities</b>	18	306	1,579	2,004
<b>Returns on investments and servicing of finance</b>				
Interest received		3	–	1
Interest element of finance lease payments		(2)	(2)	(2)
Other interest paid		–	(632)	(25)
		<u>1</u>	<u>(634)</u>	<u>(26)</u>
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		1	(634)	(26)
<b>Taxation</b>		(10)	(822)	(364)
<b>Capital expenditure and financial investment</b>				
Purchase of intangible fixed assets		(3)	–	(2)
Purchase of tangible fixed assets		(1,331)	(302)	(265)
Proceeds from sale of tangible fixed assets		301	249	205
		<u>(1,033)</u>	<u>(53)</u>	<u>(62)</u>
<b>Net cash outflow from capital expenditure and financial investment</b>		(1,033)	(53)	(62)
<b>Cash (outflow)/inflow before financing</b>		(736)	70	1,552
<b>Financing</b>				
Issue of ordinary share capital		4	–	–
New long term loans		–	760	–
Repayment of long term loans		–	(944)	(211)
New finance leases		38	–	–
Capital element of finance lease payments		(17)	(12)	(12)
		<u>25</u>	<u>(196)</u>	<u>(223)</u>
<b>Net cash inflow/(outflow) from financing</b>		25	(196)	(223)
<b>(Decrease)/increase in cash in the year</b>		<u>(711)</u>	<u>(126)</u>	<u>1,329</u>
<b>Reconciliation of net cash flow to movement in net debt</b>				
(Decrease)/increase in cash in the year		(711)	(126)	1,329
Cash (inflow)/outflow from increase in net debt and finance leasing		(21)	196	223
		<u>(732)</u>	<u>70</u>	<u>1,552</u>
Movement in funds in the year		(732)	70	1,552
Opening net funds/(debt)		376	(356)	(286)
		<u>376</u>	<u>(356)</u>	<u>(286)</u>
<b>Closing net (debt)/funds</b>	19	<u>(356)</u>	<u>(286)</u>	<u>1,266</u>

## NOTES TO THE FINANCIAL INFORMATION

### 1. Accounting policies

The principal accounting policies, which have been consistently applied to the financial information throughout the periods under review, are as follows:

#### *Basis of accounting*

The financial information has been prepared under the historical cost convention, as modified to include the revaluation of certain fixed assets, and in accordance with applicable United Kingdom accounting standards. The trading activities of the Group are situated in Spain and transactions are almost entirely in Euros. The financial information has therefore been presented in that currency.

#### *Basis of consolidation*

The financial information incorporates consolidated financial information relating to Medsea Group and its subsidiary undertakings using the acquisition method of accounting. The results of subsidiaries acquired are consolidated for the periods from the date on which control passed.

When Property Market Torrevieja S.L. was incorporated on 2 October 2002, one share was retained by Tony Gatehouse leading to a 0.03% minority interest in the consolidated financial statements of Medsea Group (see Note 10). At 31 December 2003 this minority interest amounted to €2. On 30 April 2004 Medsea Group acquired that share for a total consideration of €1. Property Market is now a wholly owned subsidiary of Medsea Group and the minority interest has been ignored in the financial information.

#### *Intangible fixed assets*

Trademarks are included at cost and depreciated in equal annual instalments over a period of four years. Provision is made for any impairment.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, so as to write off their cost or valuation, less their estimated residual value, in equal annual instalments over the expected useful lives of the assets, as follows:

Freehold buildings	50 years
Office equipment and motor vehicles	3 to 10 years

#### *Investment properties*

In accordance with Statement of Standard Accounting Practice No.19, certain of the company's properties are held for long-term investment and are included in the balance sheets at their open market values. The surplus or deficit on revaluation of such properties is transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties.

This policy represents a departure from statutory accounting principles in the UK, which require depreciation to be provided on all fixed assets. The directors consider that this policy is necessary in order that the financial information may give a true and fair view because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

### *Taxation*

Current tax, including Spanish corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial information. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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

### *Turnover*

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Commission income receivable in respect of property sales is recognised at the point at which a legally binding contract for sale has been signed between the purchaser and the vendor and the purchaser has paid any deposit required. Commissions payable in respect of property sales are recognised at the same time as the corresponding commission income is recognised.

### *Foreign currency*

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange ruling at that date or, if appropriate, at the forward contract rate.

### *Leases*

Assets held under finance leases and other similar contracts are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their estimated useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

## 2. Turnover

Turnover derives wholly from the one principal activity of the Group which is carried out in Spain.

## 3. Other operating income

During the year ended 31 December 2001 Medsea Group sold an interest in land which realised a profit on disposal of €2,155,000. Finance costs relating to the original purchase of that land amounted to €449,000 in the year ended 31 December 2001. The capital amount of the loan originally taken out for the purchase of that land amounted to €890,000 and the lender held an unregistered lien over the land. On the date that the land was sold the lien was removed and repayment of the loan, together with all accrued interest crystallised. No further interest accrued and the balance owing was repaid in full in January 2002. The balance of the loan due at 31 December 2001 has been reclassified as a debt due within one year (see Note 19).

## 4. Operating profit

Operating profit is stated after charging/(crediting):

	<i>Year ended 31 December 2001 €'000</i>	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2003 €'000</i>
Depreciation of owned tangible fixed assets	10	27	65
Depreciation of leased tangible fixed assets	9	13	10
Amortisation of trademarks	1	1	–
Operating lease rentals – land and buildings	–	–	27
Loss/(profit) on sale of fixed assets	2	6	(48)
	<u>          </u>	<u>          </u>	<u>          </u>

**5. Interest payable and similar charges**

	<i>Year ended 31 December 2001 €'000</i>	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2003 €'000</i>
Bank loans and overdrafts repayable wholly or partly in more than five years	–	20	25
Other loans repayable within five years	449	–	–
Finance lease interest	2	2	2
	<u>451</u>	<u>22</u>	<u>27</u>

**6. Tax on profit on ordinary activities**

	<i>Year ended 31 December 2001 €'000</i>	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2003 €'000</i>
The tax charge comprises:			
Current taxation – Spanish corporation tax	640	206	452
Deferred taxation (see Note 14)	317	163	528
<b>Tax on profit on ordinary activities</b>	<u>957</u>	<u>369</u>	<u>980</u>
Factors affecting current tax charge in the period:			
Profit on ordinary activities before taxation	<u>2,769</u>	<u>1,018</u>	<u>2,796</u>
Profit on ordinary activities multiplied by the standard rate of tax in Spain of 35% (2002: 35%, 2001: 35%)	969	356	979
Effects of:			
Other temporary timing differences	(329)	(150)	(527)
<b>Current tax charge for the year</b>	<u>640</u>	<u>206</u>	<u>452</u>

The amount of deferred tax that has not been provided on revalued investment properties is €63,000 (2002: €Nil; 2001: €Nil). This tax may become payable in the event that the relevant properties are sold.

## 7. Directors and employees

	<i>Year ended 31 December 2001 Number</i>	<i>Year ended 31 December 2002 Number</i>	<i>Year ended 31 December 2003 Number</i>
The average monthly number of persons (including directors) employed by the Group was:			
Administrative staff	4	9	24
Sales staff	13	31	77
	<u>17</u>	<u>40</u>	<u>101</u>
	<u><u>17</u></u>	<u><u>40</u></u>	<u><u>101</u></u>
	<i>Year ended 31 December 2001 €'000</i>	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2003 €'000</i>
Staff costs for the above employees and directors were:			
Wages and salaries	894	1,584	3,718
Social security costs	119	266	647
Other pension costs	-	-	-
	<u>1,013</u>	<u>1,850</u>	<u>4,365</u>
	<u><u>1,013</u></u>	<u><u>1,850</u></u>	<u><u>4,365</u></u>
	<i>Year ended 31 December 2001 €'000</i>	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2003 €'000</i>
<b>Directors' emoluments:</b>			
Remuneration for management services	76	54	360
	<u>76</u>	<u>54</u>	<u>360</u>
Highest paid director	42	42	252
	<u>42</u>	<u>42</u>	<u>252</u>
	<u><u>42</u></u>	<u><u>42</u></u>	<u><u>252</u></u>

There were no directors (2002: none; 2001: none) to whom retirement benefits are accruing under a money purchase scheme.

Tony Gatehouse is a director of Medsea Group and Medsea Estates Almeria and was also the ultimate controlling shareholder in each of the three years covered by the financial information. Throughout that period, Tony Gatehouse maintained a loan account due to Medsea Group on which no interest was charged. The balance at 31 December 2003 was €690,000 (2002: €504,000; 2001: €34,000) and the year end balances were also the maximum balances on the loan account in each year. The balance was cleared on 3 March 2004 when Medsea Group acquired Medsea Estates Almeria from Tony Gatehouse (see Note 21).

Juan Gabriel Botella, who was a director of Medsea Group during 2001 and 2002 maintained a loan account due to Medsea Group on which no interest was charged. The balance at 31 December 2003 was €49,000 (2002: €212,000; 2001: €207,000), all of which has subsequently been recovered. The maximum balance in the year ended 31 December 2003 was €212,000 (2002: €212,000; 2001 €232,000).

**8. Intangible fixed assets**

	<i>Trademarks</i> €'000
<b>Cost</b>	
As at 1 January 2001	1
Additions	3
<b>As at 31 December 2001</b>	4
Additions	—
<b>As at 31 December 2002</b>	4
Additions	2
<b>As at 31 December 2003</b>	<u>6</u>
<b>Amortisation</b>	
As at 1 January 2001	—
Charge for the year	1
<b>As at 31 December 2001</b>	1
Charge for the year	1
<b>As at 31 December 2002</b>	2
Charge for the year	—
<b>As at 31 December 2003</b>	<u>2</u>
<b>Net book value</b>	
As at 31 December 2001	<u>3</u>
As at 31 December 2002	<u>2</u>
As at 31 December 2003	<u>4</u>

## 9. Tangible fixed assets

	<i>Freehold land and buildings €'000</i>	<i>Freehold investment properties €'000</i>	<i>Office equipment and motor vehicles €'000</i>	<i>Total €'000</i>
<b>Cost or valuation</b>				
As at 1 January 2001	–	301	77	378
Additions	253	1,033	45	1,331
Disposals	–	(301)	(2)	(303)
<b>As at 31 December 2001</b>	<u>253</u>	<u>1,033</u>	<u>120</u>	<u>1,406</u>
Additions	105	46	151	302
Disposals	–	(254)	(2)	(256)
<b>As at 31 December 2002</b>	<u>358</u>	<u>825</u>	<u>269</u>	<u>1,452</u>
Revaluation in the year	–	179	–	179
Additions	6	–	259	265
Disposals	–	(154)	(16)	(170)
<b>As at 31 December 2003</b>	<u><u>364</u></u>	<u><u>850</u></u>	<u><u>512</u></u>	<u><u>1,726</u></u>
<b>Depreciation</b>				
As at 1 January 2001	–	–	26	26
Charge for the year	1	–	18	19
Disposals	–	–	–	–
<b>As at 31 December 2001</b>	<u>1</u>	<u>–</u>	<u>44</u>	<u>45</u>
Charge for the year	5	–	35	40
Disposals	–	–	(1)	(1)
<b>As at 31 December 2002</b>	<u>6</u>	<u>–</u>	<u>78</u>	<u>84</u>
Charge for the year	5	–	70	75
Disposals	–	–	(13)	(13)
<b>As at 31 December 2003</b>	<u><u>11</u></u>	<u><u>–</u></u>	<u><u>135</u></u>	<u><u>146</u></u>
<b>Net book value</b>				
As at 31 December 2001	<u>252</u>	<u>1,033</u>	<u>76</u>	<u>1,361</u>
As at 31 December 2002	<u>352</u>	<u>825</u>	<u>191</u>	<u>1,368</u>
As at 31 December 2003	<u><u>353</u></u>	<u><u>850</u></u>	<u><u>377</u></u>	<u><u>1,580</u></u>

Assets held under finance leases originally cost €59,000 (2002: €59,000, 2001: €21,000) and have a net book value of €23,000 (2002: €33,000, 2001: €46,000). Depreciation charged on such assets during 2003 was €10,000 (2002: €13,000, 2001: €9,000).

Investment properties have been valued by the directors based on the value of similar properties that have been sold by the Group in its capacity as sales agent.

**10. Investment in subsidiary undertakings**

At 31 December 2001, Medsea Group had no investment in any subsidiary undertakings.

On 2 October 2002 Medsea Group subscribed for the whole of the issued share capital of Medsea Estates Torrevieja S.L. and 99.97% of the issued share capital of Property Market Torrevieja S.L. ("Property Market"). Both of those companies were incorporated on that date and, on the same date, the trade previously carried on by Medsea Group was transferred to those two companies.

On 11 February 2003 Medsea Group subscribed for the whole of the issued share capital of Medsea Estates Costa Blanca S.L. which was incorporated on that date.

At 31 December 2003 Medsea Group had investments in the following subsidiary undertakings, all of which were incorporated in Spain. All investments are held directly by Medsea Group.

<i>Name of subsidiary</i>	<i>Shares held</i>	<i>Proportion held</i>	<i>Principal activity</i>
Medsea Estates Torrevieja S.L.	Ordinary	100%	Agent for the sale of new residential property
Property Market Torrevieja S.L.	Ordinary	99.97%	Agent for the sale of used residential property
Medsea Estates Costa Blanca S.L.	Ordinary	100%	Agent for the sale of new residential property

In addition to the investments listed above, when Medsea Estates Almeria was incorporated on 2 October 2001, Medsea Group subscribed for 1 ordinary share of €40 at par, a 1% shareholding. This share was held at each of the balance sheet dates reported.

Medsea Estates Almeria had no investment in any undertakings at any of the balance sheet dates reported.

**11. Debtors**

	<i>As at 31 December 2001 €'000</i>	<i>As at 31 December 2002 €'000</i>	<i>As at 31 December 2003 €'000</i>
Trade debtors	599	577	590
Other debtors	1,793	827	922
Prepayments and accrued income	1,625	2,540	5,468
	<u>4,017</u>	<u>3,944</u>	<u>6,980</u>

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

	<i>As at 31 December 2001 €'000</i>	<i>As at 31 December 2002 €'000</i>	<i>As at 31 December 2003 €'000</i>
Bank loans	–	96	85
Other loans	890	–	–
Obligations under finance leases	12	12	8
Trade creditors	129	182	442
Corporation tax	699	84	172
Other taxation and social security	534	429	917
Other creditors	615	31	59
Accruals and deferred income	786	1,228	2,643
	<u>3,665</u>	<u>2,062</u>	<u>4,326</u>

Liabilities arising under finance leases are secured on the assets concerned. The bank loans are secured on the freehold investment properties owned by the Group, are repayable over twelve years by equal monthly instalments (or as the corresponding properties are sold) and carry interest at 2% above the bank's base rate.

The other loan was unsecured at 31 December 2001 (see Note 3).

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

	<i>As at 31 December 2001 €'000</i>	<i>As at 31 December 2002 €'000</i>	<i>As at 31 December 2003 €'000</i>
Bank loans	–	610	410
Obligations under finance leases	32	20	12
	<u>32</u>	<u>630</u>	<u>422</u>
Analysis of loans – amounts repayable:			
In one year or less, or on demand	890	96	85
Between one and two years	–	104	89
Repayable between 2 and 5 years	–	319	273
	<u>890</u>	<u>519</u>	<u>447</u>
In more than 5 years, repayable by instalments	–	187	48
	<u>890</u>	<u>706</u>	<u>495</u>

All of the finance leases are repayable within five years.  
See Note 12 for details of security for the finance leases and bank loans.

**14. Provisions for liabilities and charges**

	<i>As at 31 December 2001 €'000</i>	<i>As at 31 December 2002 €'000</i>	<i>As at 31 December 2003 €'000</i>
<b>Deferred taxation</b>			
Provision at 1 January	(18)	299	462
Charge for the year	317	163	528
Provision at 31 December	<u>299</u>	<u>462</u>	<u>990</u>

The provision for deferred taxation consists of the tax effects of timing differences in respect of income recognition.

**15. Share capital**

	<i>As at 31 December 2001 €'000</i>	<i>As at 31 December 2002 €'000</i>	<i>As at 31 December 2003 €'000</i>
<b>Medsea Group:</b>			
Authorised:			
100 ordinary shares of €36 each	<u>4</u>	<u>4</u>	<u>4</u>
Issued and fully paid:			
100 ordinary shares of €36 each	<u>4</u>	<u>4</u>	<u>4</u>
<b>Medsea Estates Almeria</b>			
Authorised:			
4,000 ordinary shares of €1 each	<u>4</u>	<u>4</u>	<u>4</u>
Issued and fully paid:			
4,000 ordinary shares of €1 each	<u>4</u>	<u>4</u>	<u>4</u>
<b>Aggregate issued share capital</b>	<u>8</u>	<u>8</u>	<u>8</u>

Medsea Estates Almeria was incorporated on 2 October 2001 and issued 4,000 ordinary shares of €1 each at par on that date.

## 16. Reserves

	<i>Capital redemption reserve</i> €'000	<i>Revaluation reserve</i> €'000	<i>Other reserve</i> €'000	<i>Profit and loss account</i> €'000	<i>Total</i> €'000
As at 1 January 2001	–	–	1	142	143
Profit for the year	–	–	–	1,812	1,812
Transfer between reserves	–	–	1	(1)	–
<b>As at 31 December 2001</b>	–	–	2	1,953	1,955
Profit for the year	–	–	–	649	649
Transfer between reserves	–	–	169	(169)	–
<b>As at 31 December 2002</b>	–	–	171	2,433	2,604
Revaluation in the year	–	179	–	–	179
Profit for the year	–	–	–	1,816	1,816
Transfer between reserves	–	–	–	–	–
<b>As at 31 December 2003</b>	–	179	171	4,249	4,599

Following the introduction of the Euro in Spain, Medsea Group's shares, which previously had a par value of 6,000 pesetas each, became shares with a par value of €36.06 each. During 2002 Medsea Group reduced the nominal value of its shares to €36 each and the total reduction in capital of €6 was transferred to the capital redemption reserve.

Each company in the Group is required to transfer 10% of its profit each year to a non-distributable reserve until the balance on that reserve reaches 20% of that company's paid up share capital. This balance is reflected under Other reserve and the reserve was fully funded at 31 December 2003.

## 17. Reconciliation of movement in shareholders' funds

	<i>Year ended 31 December 2001</i> €'000	<i>Year ended 31 December 2002</i> €'000	<i>Year ended 31 December 2003</i> €'000
Profit for the year	1,812	649	1,816
Revaluation in the year	–	–	179
Issue of shares	4	–	–
Opening shareholders' funds	147	1,963	2,612
<b>Closing shareholders' funds</b>	<b>1,963</b>	<b>2,612</b>	<b>4,607</b>

**18. Reconciliation of operating profit to operating cash flows**

	<i>Year ended 31 December 2001 €'000</i>	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2003 €'000</i>
Operating profit	3,217	1,040	2,822
Depreciation and amortisation	20	41	75
(Increase)/decrease in debtors	(3,265)	73	(3,036)
Increase in creditors	332	419	2,191
Loss/(profit) on sale of fixed assets	2	6	(48)
Net cash inflow from operating activities	<u>306</u>	<u>1,579</u>	<u>2,004</u>

**19. Analysis of changes in net debt**

	<i>Year ended 31 December 2001 €'000</i>	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2003 €'000</i>
Cash at bank and in hand	1,289	578	452
Finance leases	(23)	(44)	(32)
Debt due within one year	–	(890)	(96)
Debt due after one year	(890)	–	(610)
Opening net funds/(debt)	376	(356)	(286)
(Decrease)/increase in cash in the year	(711)	(126)	1,329
(Increase)/decrease in finance leases in the year	(21)	12	12
(Increase)/decrease in debt due within one year	(890)	794	11
Decrease/(increase) in debt due after one year	890	(610)	200
Cash at bank and in hand	578	452	1,781
Finance leases	(44)	(32)	(20)
Debt due within one year	(890)	(96)	(85)
Debt due after one year	–	(610)	(410)
Closing net (debt)/funds	<u>(356)</u>	<u>(286)</u>	<u>1,266</u>

## 20. Financial commitments

At each year end the Group had annual commitments under non-cancellable operating leases as set out below:

	<i>Year ended 31 December 2001 €'000</i>	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2003 €'000</i>
<b>Land and buildings:</b>			
Expiring within one year	–	–	22
Expiring in two to five years	–	–	16
	<u>          </u>	<u>          </u>	<u>          </u>

## 21. Post balance sheet events

On 3 March 2004 Medsea Group acquired 99% of the issued share capital of Medsea Estates Almeria from Tony Gatehouse for a total consideration of €990,000. At that date Medsea Estates Almeria had net assets of €1,096,000. The consideration has been paid, in part, to clear the balance on Tony Gatehouse's loan account with Medsea Group (see Note 7). Medsea Estates Almeria is now a wholly owned subsidiary of Medsea Group.

On 5 March 2004 Medsea Group subscribed at par for 100% of the issued share capital of Medsea Estates Costa Tropical S.L., a company incorporated in Spain on that date with a total issued share capital of 3,006 ordinary shares of €1 each. Medsea Estates Costa Tropical has been established to act as an agent for the sale of new residential properties on the Costa Tropical.

On 5 March 2004 Medsea Group subscribed at par for 94.98% of the issued share capital of Euomed Investment S.L., a company incorporated in Spain on that date with a total issued share capital of 3,006 ordinary shares of €1 each. Euomed Investment S.L. has been established to act as a promoter for the sale of new residential properties on prime development sites. On 30 April 2004, Medsea Group acquired one further ordinary share in the capital of Euomed Investment S.L. from Tony Gatehouse for a total consideration of €1.

On 30 April 2004, Medsea Group subscribed at par for 100% of the issued share capital of Medsea Financial Services S.L., a company incorporated in Spain on that date with a total issued share capital of 4,000 ordinary shares of €1 each. Medsea Financial Services S.L. has been established to provide financial services to persons acquiring residential property in Spain.

## 22. Nature of financial information

The financial information presented above in respect of the three years ended 31 December 2003 does not constitute statutory accounts for each of those years.

Yours faithfully

Spofforths

**Chartered Accountants**

## Part 4: Additional Information

### 1. THE COMPANY

- 1.1 The Company was incorporated in England & Wales on 10 May 2004 as a public limited company under the Companies Act 1985 (the “Act”) registered with number 5123368 under the name “Medsea Group PLC”. On 13 July 2004, the name of the Company changed to “Medsea Estates Group PLC”. The Company’s registered office and principal place of business are at Suite 303, Park House, 22 Park St, Croydon CR0 1YE. On 27 July 2004, the Company was issued a certificate under section 117 of the Act entitling it to do business.
- 1.2 The liability of the members of the Company is limited.
- 1.3 The principal object of the Company is to carry on the business of a holding and investment company.
- 1.4 The Company currently has the following subsidiaries which are all wholly-owned except where indicated:

Euromed Investments S.L. (owned as to 95 per cent)  
 Medsea Estates Almeria S.L.  
 Medsea Estates Costa Blanca S.L.  
 Medsea Estates Costa Tropical S.L.  
 Medsea Estates Torrevieja S.L.  
 Property Market S.L.  
 Medsea Financial Services S.L.  
 Medsea UK Limited  
 Medsea Group S.L.

Note: The above-named subsidiaries all carry on the business of an estate agency save for Euromed Investments S.L. which carries on the business of promoting the sale of new residential developments and Medsea Financial Services which provides financial advice and Medsea UK Limited/Medsea Group S.L. which are holding companies.

### 2. SHARE CAPITAL

- 2.1 Changes in Share Capital
- (a) On incorporation the Company’s authorised share capital was £50,000 divided into 50,000 Ordinary Shares of £1 each.
- (b) The two subscriber shares were transferred to Catalyst Investment Group Ltd on 12 July 2004.
- (c) On the 12 July 2004, resolutions of the Company were passed to increase the authorised share capital of the Company to £10,000,000 by the creation of 99,500,000 Ordinary Shares of 10p each and to sub-divide the two existing Ordinary Shares of £1 each into twenty Ordinary Shares of 10p each.
- 2.2 By a Share Exchange Agreement made on 23 July 2004, the Company allotted Ordinary Shares of 10p credited as fully paid to:

<i>Allottee</i>	<i>Amount of Ordinary Shares</i>
Tony Gatehouse	35,331,064
Catherine Gatehouse	19,271,682
Juan Carlos Rodriguez Martinez	9,636,194
Catalyst Investment Group Limited	294,382
Stuart Kinner	294,402
Arc Fund Management Limited	2,000,804
Emily James	590,216
Lorraine Lavers	590,216
Barbara Roberts	590,216
Fidelity Growth Trust LLC	2,000,804

The above Ordinary Shares were allotted in consideration for the transfer to the Company of the whole of the issued share capital of Medsea UK Ltd.

2.3 The share capital of the Company as it will be on Admission is:

	£	Authorised No.	£	Issued No.
Ordinary Shares of 10p each	10,000,000	100,000,000	7,062,941	70,629,412

By resolutions passed on 12 July 2004:

- (a) the Directors were authorised for the purposes of Section 80 of the Companies Act 1985, to allot shares up to the nominal amount of the authorised but unissued share capital of the Company at any time up to the date of Admission of the Ordinary Shares in the Company to AIM or 31 August 2004, whichever is the earlier (the "Relevant Date") and thereafter such authority to allot shares was for the period up to the next Annual General Meeting of the Company limited to a nominal amount of £7,411,764;
  - (b) in accordance with section 95 of the Companies Act 1985, the directors were authorised from the Relevant Date until the conclusion of the next Annual General Meeting of the Company to allot equity securities up to a nominal amount of £2,354,314.
- 2.4 The Directors allotted 29,412 Ordinary Shares on 26 July 2004 to Beaumont Cornish in connection with the letter of engagement referred to in paragraph 8.1 below.
- 2.5 Save as disclosed in this document:
- 2.5.1 no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option; and
  - 2.5.2 save for any ordinary shares arising pursuant to any share incentive scheme for employers, there is no present intention to issue any of the authorised but unissued share capital of the Company.
  - 2.5.3 there has been no change in the share capital of the Company and no capital of the Company has been allotted for cash or for a consideration other than cash;
  - 2.5.4 no person has any preferential subscription rights for any shares of the Company which are issued;
  - 2.5.5 since incorporation, no commissions, discounts, brokerages or other special terms have been granted by the Company or is now proposed in connection with the issue or sale of any share or loan capital of the Company;
  - 2.5.6 the Company does not have in issue any securities not representing share capital and there are no outstanding convertible securities issued by the Company.
- 2.6 The existing Ordinary Shares will rank *pari passu* in all respects and will have the right to receive all dividends and other distributions declared, made or paid.
- 2.7 Save as disclosed in this document, no founder, management or deferred shares have been issued by the Company.
- 2.8 Following the Admission, 29,370,588 Ordinary Shares will remain authorised but unissued.
- 2.9 The existing Ordinary Shares are in registered form. Pursuant to a resolution of the Directors passed on 12 July 2004, it was resolved that the Ordinary Shares should become participating securities as defined in the Uncertificated Securities Regulations 2001. Accordingly, the Ordinary Shares will be in uncertificated form.
- 2.10 None of the Ordinary Shares has been sold or is available in whole or in part to the public in conjunction with the application for Admission.
- 2.11 At the date of this Document so far as the Directors are aware, the only persons who are directly interested in more than 3 per cent of the issued share capital are as shown in the table at paragraph 5.1 of Part IV of this Document.

### 3. MEMORANDUM AND ARTICLES OF ASSOCIATION

#### 3.1 Memorandum of Association.

3.1.1 In this paragraph 3, references to the “Statutes” are references to the Act and every other Act for the time being in force concerning companies and affecting the Company.

3.1.2 The principal objects of the Company are set out in full in clause 4 of the memorandum of association and include carrying on the business of a holding and investment company. The Memorandum of Association is available for inspection at the address specified in paragraph 12 below.

#### 3.2 Articles of Association.

The Articles of Association of the Company, a copy of which is available for inspection as stated in paragraph 12 below, were adopted on 12 July 2004 and contain, among others, provisions to the following effect:

##### *Rights attaching to Ordinary Shares*

##### **Votes of Members**

- (a) Subject to any restrictions imposed by or pursuant to the Articles and to any rights of restrictions attached to any shares, on a show of hands every member who is present in person at a general meeting of the Company (or, being a corporation present by a duly authorised representative) shall have one vote only, and on a poll every member who is present in person or by proxy shall have one vote for every 10p in nominal value of shares of which he is a holder.
- (b) No holder of a share shall, unless the Directors otherwise determine, be entitled (save as proxy for another member) to be present or vote at a general meeting either personally or by proxy, in respect of any share held by him unless all monies presently payable by him in respect of that share have been paid.

##### **Dividends**

- (a) the Company may by ordinary resolution declare dividends but no dividend shall be payable except out of the profits of the Company available for distribution in accordance with the provisions of the Act, or in excess of the amount recommended by the Directors.
- (b) The Directors may, if in their opinion the profits of the Company justify such payments, pay a fixed dividend on any class of shares carrying a fixed dividend expressed to be payable on a fixed date.
- (c) The directors may also pay interim dividends of such amounts and on such dates as they think fit provided such profits of the Company are available for distribution. Subject to any rights or privileges for the time being attached to any shares having preferential or special rights in regard to dividend, the profits of the Company which it shall from time to time be determined to be distributed by way of dividend shall be applied in payment of dividends upon the Ordinary Shares in proportion to the amounts paid up thereon respectively otherwise than in advance of calls and so that all dividends shall be apportioned and paid proportionately during any portion or portions of the period in respect of which the dividend is paid during which any such amount or amounts were paid up. If any share is issued upon terms providing that it shall rank for dividend as from or after a particular date, or be entitled to dividends declared after a particular date, such share shall rank for or be entitled to dividend accordingly. Dividends may be paid in any currency.
- (d) The Directors may deduct from any dividend payable to any member in respect of a share all monies presently payable by him to the Company in respect of that share.
- (e) A general meeting declaring a dividend may, upon the recommendation of the directors, direct that it shall be satisfied in whole or part by the distribution of assets in accordance with the Articles.
- (f) No dividend or other moneys payable in respect of a share shall bear interest against the company unless otherwise provided by the rights attached to the share.
- (g) Any dividend which has remained unclaimed for twelve years from the date when it became due for payment shall, if the Directors so resolve, be forfeited and cease to remain owing by the Company.

***Distribution of assets on liquidation***

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the Company and in compliance with the Act, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members.

***Variation of class rights***

Whenever the share capital is divided into different classes of share, all or any of the rights attached to any class of share (unless otherwise provided by the terms of issue of the shares of that class) may be modified, varied, extended, abrogated or surrendered either in such manner (if any) as may be provided by such rights or (in the absence of any such provision) with the written consent of the holders of at least three-fourths in nominal value of the issued shares of that class or with the sanction of any special resolution passed at a separate general meeting of the holders of such shares. Unless otherwise provided by the rights attached to shares, those rights shall be deemed to be varied by the reduction of the capital paid up on the shares and by the allotment of further shares ranking in priority for payment of a dividend or which confer on the holders voting rights more favourable than those conferred by such first mentioned shares.

***Restriction on transferability of shares***

The Directors may in their absolute discretion, and without assigning any reason therefore, refuse to register or authorise the registration of any transfer of a share:

- (a) which is not fully paid and on which the Company has a lien and provided the Directors do not prevent dealings in the share from taking place.
- (b) whether fully paid or not, if it is in favour of more than four persons jointly;
- (c) if:-
  - (i) a notice has been duly served in respect of that share pursuant to section 212(1) of the Act or any other statutory provision concerning the disclosure of interests in voting shares;
  - (ii) the share or shares which are the subject of that notice represent in aggregate at least 0.25 per cent of that class of share; and
  - (iii) the notice has not been complied with within the period stipulated in the notice (which must not be less than 14 days) and continues not to be complied with;

unless the transfer in question was effected pursuant to a sale through a recognised investment exchange (as defined in the Financial Services and Markets Act 2000) or other recognised market or as a result of an acceptance of a take-over offer for the Company or the Directors are satisfied that it was effected pursuant to a bona fide sale to an unconnected person.

Directors may also decline to recognise a transfer of shares unless it is in respect of only one class of share and is deposited at the place where the register of members of the Company is kept for the time being (or at such other place as the Directors may from time to time determine) accompanied (save in the case of a transfer by a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange (as defined in the Financial Services and Markets Act 2000), unless and to the extent that certificates must by law have been issued in respect of the shares in question) by the relevant share certificate(s) and in any case such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

The Articles do not contain any pre-emption rights relating to transfers of shares.

***Redeemable Shares***

Subject to the provisions of its Articles, the Company may by special resolution create and sanction the issue of shares which are, or at the option of the Company or holder liable to be redeemed subject to and in accordance with the provisions of the Act.

**Non-UK Shareholders**

There is no limitation in the Memorandum or Articles on the rights of non-UK shareholders to hold, or exercise voting rights attaching to, Ordinary Shares. However, no shareholder is entitled to receive notices from the Company, including notices of general meetings, unless he has given an address in the UK to the Company to which such notices may be sent.

**Directors' Borrowing powers**

Subject to the provisions of the Articles the Directors may exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property, assets and uncalled capital or any part thereof, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or its holding company (if any) or any subsidiary of the Company or its holding company or of any third party.

**4. SHARE INCENTIVE SCHEMES**

In due course the Directors intend to establish one or more share incentive and/or share option schemes whereby rights may be granted in respect of up to 5 per cent of the issued ordinary share capital of the Company to Group employees and other contractors or advisers to the Group. Particulars of any such proposed schemes will be submitted to shareholders for approval.

**5. DIRECTORS AND OTHER SHAREHOLDINGS**

## 5.1 Directors' and other interests

<i>Name</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
Tony Gatehouse	Medsea Group S.L.	
Juan Carlos Rodriguez Martinez	Medsea Group S.L.	
Alberto Gil	Warmways Healthcare Holdings PLC Valley Schools Limited @Cost Builders Limited	MBI/MBO Limited KHL Limited KHL (Poole) Limited KHL (Dartford) Limited KHL (Leeds) Limited KHL (Wembley) Limited The Generator (London) Limited KSL Limited
Kenneth Guy Burrage	Principal Investment Management Limited Burrage Funds Limited Burrage Unit Trust Management Limited Suffolk Life PLC Law Alert Limited	R. J. Kiln & Co. Limited Burrage & Co. Limited

The interests of the Directors and their immediate families and of persons connected with them within the meaning of Section 346 of the Act in the share capital of the Company as at the date of this Document all of which are beneficial (which have been notified to the Company pursuant to Section 324 of the Act and are required to be entered into the register of Directors' interests maintained under the provisions of Section 325 of the Act) are as follows:

<i>Name</i>	<i>Number of ordinary shares before Admission</i>	<i>% of issued share capital</i>
Tony Gatehouse	35,331,064	50.02
Catherine Gatehouse	19,271,682	27.29
Juan Carlos Rodriguez Martinez	9,636,194	13.64

Save as disclosed above, no Director or any member of their respective immediate families, or any person connected with them within the meaning of Section 346 of the Act has a beneficial or non-beneficial interest in any share capital of the Company.

Save as disclosed in paragraph 5.2 below, no Director:

- 5.1.1 has any unspent convictions in relation to indictable offences; or
  - 5.1.2 has ever been declared bankrupt or entered into an individual voluntary arrangement; or
  - 5.1.3 has been a director of any company at the time of or within 12 months preceding the date of its receivership, compulsory liquidation, creditors liquidation, administration, company voluntary arrangement or any composition or any arrangement with its creditors generally or any class of its creditors; or
  - 5.1.4 has been a partner of any partnership which has been placed into compulsory liquidation or administration or entered into a partnership voluntary arrangement at the time of or within 12 months preceding such an event and there have been no receiverships of any asset of any partnership of which the Director was a partner at the time of or within 12 months preceding such an event; or
  - 5.1.5 has been publicly criticised by any statutory or regulatory authority or 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.
- 5.2 Alberto Gil was appointed a director on 14 October 1997 and resigned as a director on 23 May 1998 of Cheers (UK) Limited to which receivers were appointed on 29 July 1998.
- 5.3 Directors' service agreements and emoluments

On 12 July 2004, the following Directors (the "Executive Directors") entered into service contracts with the Company (in addition to their existing contracts of employment with Medsea Group S.L.), the current principal terms of which are summarised below (the "Service Contracts"):

<i>Name</i>	<i>Position</i>	<i>Basic salary</i>	<i>Pension contributions</i>	<i>Notice and term</i>
Tony Gatehouse	Chairman	€119,000	nil	2 years plus 12 months
Juan Carlos Rodriguez Martinez	Chief Executive	€119,000	nil	2 years plus 12 months

The Service Contracts provide for the Executive Directors' salaries to be reviewed annually on 1 July in every year.

Tony Gatehouse is engaged by Medsea Group S.L. as Administrator (Director) of Medsea Group S.L. The salary payable to Mr Gatehouse in his capacity is included in the salary referred to above. Juan Carlos Rodriguez Martinez is also employed by Medsea Group S.L. The salary payable to Mr Rodriguez Martinez in this capacity is included in the salary referred to above.

Save as set out in this paragraph 5, no Director has, nor is it proposed that any Director shall have, a service contract with the Company or any other company within the Group.

On 27 July 2004, the following Directors (the "Non-Executive Directors") entered into letters of appointment with the Company the principal terms of which are summarised below (the "Letters of Appointment"):

	<i>Position</i>	<i>Fee payable per annum as Directors' fees</i>
Alberto Gil	Finance Director	£25,000
Kenneth Guy Burrage	Non-executive	£20,000

Each Letter of Appointment provides that the Non-Executive Directors shall be paid a Director's fee as set out above payable quarterly in arrears. The Company shall also reimburse the Non-Executive Director's reasonable out of pocket expenses. Each Non-Executive Director's appointment is effective from Admission for a period of one year after which time it can be terminated by either party on giving three months' notice.

No remuneration has paid to the Directors in the last financial year of the Company, because the Company was incorporated on 10 May 2004. It is anticipated that the Executive Directors will receive a total of €238,000 with no pension contributions and the Non-Executive Directors will receive a total of £45,000 with no benefits in kind for the current financial year.

## 6 WORKING CAPITAL

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

## 7 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 Company's or any member of the Group's financial position.

## 8 MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries since incorporation, which remain in effect and are, or may be, material and remain in effect:

- 8.1 A letter of engagement dated 20 April 2004 between Beaumont Cornish and Medsea Group whereby Beaumont Cornish agreed to act as Nominated Adviser in connection with the Admission. Under the terms of such engagement, Beaumont Cornish were entitled to total fees of £50,000 of which, half was to be satisfied in Ordinary Shares at a price of 85p per share (together with VAT) together with the warrants set out in paragraph 8.4 below.
- 8.2 A Nominated Adviser agreement dated 29 July 2004 between the Company (1), the Directors (2) and Beaumont Cornish Limited (3) pursuant to which the Company has appointed Beaumont Cornish Limited to act as Nominated Adviser to the Company for the purposes of AIM commencing with effect from Admission and continuing thereafter. The Company agreed to pay Beaumont Cornish Limited a fee of £22,500 per annum (increasing to £25,000 in the second year) for its services as Nominated Adviser under this agreement. The agreement contains certain undertakings and indemnities given by the Company and the Directors in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement is for a minimum period of 12 months and thereafter subject to termination on the giving of 60 days notice by either the Company or by Beaumont Cornish Limited.
- 8.3 A Broker's Agreement dated 29 July 2004 between the Company (1) and Midas Investment Management Ltd (2) pursuant to which Midas Investment Management Ltd has agreed to act as Broker subject to three months' written notice by either party. Under the Broker Agreement, the Company has agreed to pay Midas Investment Management Ltd a fee of £5,000 plus VAT in respect of the Admission and a fee of £5,000 per annum plus VAT for acting as Broker, payable quarterly in advance with the first payment being due immediately following Admission.
- 8.4 Pursuant to the agreement referred to in paragraph 8.1 above, the Company has agreed to issue Beaumont Cornish Limited warrants to subscribe for 706,294 new Ordinary Shares at a price of 85p per share anytime within five years of the Admission date.
- 8.5 Irrevocable deeds of undertaking dated 29 July 2004 between the Company (1) and each of the Directors, Juan Carlos Rodriguez Martinez, Tony Gatehouse and Catherine Gatehouse, whereby each such person undertakes with the Company that he will not dispose of any Ordinary Shares held by him until the expiry of the period ending 24 months from the date of Admission, except that on the publication of the Company's audited accounts for the year ended 31 December 2004, they can dispose of shares with the approval of the Nominated Adviser.
- 8.6 Irrevocable deeds of undertaking dated 29 July 2004 between the Company (1) and each of Catalyst Investment Group Limited, Arc Fund Management Limited and Fidelity Growth Trust LLC whereby each such person undertakes with the Company that it will not dispose of any Ordinary Shares held by it until the expiry of one year from the date of Admission except in consultation with the Company's Nominated Adviser and with a view to the maintenance of an orderly market, provided that such disposal shall not take place until after the publication of the Company's interim results for the six months ended 30 June 2004.
- 8.7 Irrevocable deeds of undertaking dated 29 July 2004 between the Company (1) and each of Stuart Kinner, Emily James, Lorraine Lavers and Barbara Roberts whereby each person undertakes with the Company that he will not dispose of any Ordinary Shares held by him until the expiry of one year from the date of Admission except with the approval of the Nominated Adviser following the publication of the Company's interim results for the six months ended 30 June 2004.
- 8.8 A Share Exchange Agreement dated 23 July 2004 as referred to in paragraph 2.2 above.

## 9 CONSENTS

Beaumont Cornish Limited and Midas Investment Management Ltd have given and not withdrawn their written consents to the issue of this document including the references to their names in the form and context in which they are included.

Spofforths has given and has not withdrawn its written consent to the inclusion in this document of its reports and the references thereto and to its name, in the form and context in which they are included and accept responsibility for such reports in accordance with paragraph 45 of Schedule 1 to the POS Regulations.

## 10 TAXATION

The following comments are intended as a general guide to certain aspects of current UK tax legislation and current practice of the UK Inland Revenue as they apply to holders of Ordinary Shares. The comments do not apply to certain Shareholders, such as dealers in securities. The following statements are not exhaustive and all persons are strongly advised to obtain their own professional advice on the tax implications of acquiring, owning and/or disposing of Ordinary Shares.

### 10.1 *Dividends*

Under current UK tax legislation the Company will not be required to withhold UK tax from any dividends paid by the Company. An individual Shareholder resident (for tax purposes) in the UK who receives a dividend from the Company will be entitled to a tax credit equal to one-ninth of the dividend which he may set off against his total income tax liability. Basic rate and starting rate taxpayers will normally have no further liability to tax on the dividend. Higher rate taxpayers will be liable to tax on the sum of the dividend plus the tax credit at the higher rate of 32.5 per cent against which liability the tax credit can be offset.

Subject to certain limited exceptions, a corporate Shareholder resident (for tax purposes) in the UK will not be liable to UK corporation tax on any dividend received from the Company. Such corporate Shareholders will not be able to reclaim repayment of the tax credit attaching to any dividend.

UK pension funds will not be able to reclaim the tax credit attaching to any dividend paid by the Company.

The right of a Shareholder who is not resident (for tax purposes) in the UK to a tax credit in respect of a dividend received from the Company and to claim payment of any part of that tax credit from the Inland Revenue will depend on the existing terms of any double taxation convention between the UK and the country in which the Shareholder is resident. Such a Shareholder should consult his own tax adviser concerning his tax liability on dividends received, whether he is entitled to claim any part of the tax credit, and if so, the procedure for doing so.

### 10.2 *Capital gains*

Any Shareholder who is resident or ordinarily resident in the UK in the relevant year of assessment, or if not resident, carries on a trade, profession or vocation in the UK through a branch or agency to which the Ordinary Shares are attributable, may depending on the Shareholder's individual circumstances be subject to UK tax on capital gains in respect of a disposal of the Ordinary Shares. Individuals, personal representatives and trustees may be entitled to taper relief, which may serve to reduce the chargeable gain.

An individual Shareholder who has, on or after 17 March 1998, ceased to be resident and ordinarily resident in the UK (for tax purposes) for a period of less than 5 years and who disposes of the Ordinary Shares during that period may also be liable on his return to the UK to any capital gain realised (subject to any available exemption or relief).

Companies resident (for tax purposes) in the UK are not entitled to taper relief, but are entitled to indexation allowance, which may reduce the chargeable gains. For a company holding 10 per cent or more of the Company's ordinary share capital, a gain on the sale of the shares will be exempt from tax on chargeable gains provided certain conditions are met.

### 10.3 *Inheritance Tax ("IHT") Relief*

Unquoted ordinary shares in a qualifying company such as the Company ordinarily qualify for 100 per cent IHT Business Property Relief provided they have been held for two years prior to the event giving rise to IHT. Shares traded on AIM are regarded as unquoted for this purpose and are therefore in principle eligible for IHT Business Property Relief (subject to the Company meeting all of the relevant qualifying conditions).

#### 10.4 Stamp duty and stamp duty reserve tax

Stamp duty and stamp duty reserve tax ("SDRT") treatment in respect of the transfers of Ordinary Shares will be as follows:

- (a) the conveyance or transfer of Ordinary Shares outside the CREST system will generally be liable to *ad valorem* stamp duty on the instrument of transfer at the rate of 0.5 per cent (rounded up to the nearest multiple of £5.00) of the amount or value of the consideration given. An unconditional agreement to transfer shares will generally be subject to SDRT at 0.5 per cent of the amount or value of the agreed consideration. If stamp duty is paid on that instrument within six years of the date of the agreement, any SDRT already paid will be refunded (generally, but not necessarily, with interest) provided that a claim for payment is made or any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee;
- (b) investors may elect to hold their Ordinary Shares in uncertificated form through CREST. No stamp duty or SDRT will arise on a transfer of Ordinary Shares into CREST for conversion into uncertificated form, unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise, unusually at the rate set out in sub-paragraph (a) above.
- (c) a transfer of Ordinary Shares effected on a paperless basis within CREST will generally be subject to SDRT at the rate of 0.5 per cent of the amount or value of the consideration. CREST is obliged to collect SDRT from the purchase of the Ordinary Shares on relevant transactions settled within the CREST system.
- (d) Where Ordinary Shares are issued or transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, stamp duty (in the case of a transfer only to such persons) or SDRT may be payable at the rate of 1.5 per cent of the amount or value of the consideration payable or, in certain circumstances the value of the Ordinary Shares or, in the case of an issue to such persons, the issued price of the Ordinary Shares.
- (e) The above statements are intended as a general guide to the current position. It is directed to UK residents beneficially entitled to their Ordinary Shares held as investments. Special rules apply to certain categories of person, including intermediaries and persons connected with depository arrangements and clearance services. Certain categories of person are not primarily liable for the tax and are required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

The above comments are intended as a general guide to the position under the current law and practice in the UK and may not apply to certain classes of shareholders. Any person who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction other than the UK should consult his own professional adviser.

## 11 GENERAL

11.1 Save for the Ordinary Shares allotted to Catalyst Investment Group Limited, Barbara Roberts, Stuart Kinner, Arc Fund Management Limited, Emily James, Lorraine Lavers and Fidelity Growth Trust LLC, referred to in paragraph 2.2 above, no person (excluding professional advisers, or as otherwise disclosed in this document,) has:

- (a) received, directly or indirectly, from the Company within the 12 months preceding the date of this document; or
- (b) entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company as of the date hereof any of the following:
  - (i) fees totalling £10,000 or more; or
  - (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Issue Price; or
  - (iii) any other benefit with a value of £10,000 or more at the date of Admission.

11.2 The Company's current accounting reference date is 31 December.

11.3 Save as disclosed in this document, there are no intellectual property rights, licences or particular contracts which are of fundamental importance to the Group.

11.4 There are no arrangements in force for the waiver of future dividends in respect of the Ordinary Shares.

- 11.5 There are no specified dates on which entitlement to dividends or interest thereon on the Ordinary Shares arises.
- 11.6 In the opinion of the Directors, no minimum amount needs to be raised by the Company to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 to the POS Regulations.
- 11.7 Total costs and expenses in connection with the Admission are estimated to be £210,000 excluding VAT and they are all payable by the Company out of available cash resources.
- 11.8 The principal activities of the Company are described in Part I of this document. Save as disclosed in Part I of this document, there are no exceptional factors that have influenced the Company's activities.
- 11.9 Save as disclosed in this document, there are no significant investments in progress or under active consideration by the Company.
- 11.10 Save as disclosed in this document, there has been no significant change in the financial trading position of the Group since 31 December 2003, the date at which the Accountants' Report of Medsea Group S.L. in Part III was prepared.

## **12 DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any business day (Saturdays and public holidays excepted) at the offices of Howard Kennedy Solicitors, 19 Cavendish Square, London W1A 2AW from the date of this document for at least one month after the date of Admission:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Accountants' Reports by Spofforths relating to the Company and the Group set out in Part III of this document;
- (c) the material contracts of the Group referred to in paragraph 8 above;
- (d) the consent letters referred to in paragraph 9 above;
- (e) the Service Contracts and Letters of Appointment referred to in paragraph 5.3 above; and
- (f) the Document.

29 July 2004



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