

**General Capital Group Plc**

("General Capital" or "the Group")

**Interim results**

General Capital Group Plc (AIM: GENC), the asset and property finance specialist, today announces its interim results for the six month period ended 30 June 2008.

**Highlights**

- Group revenue for the period £5.6m (2007: £6.8m).
- Operating profit, before goodwill impairments, fair value adjustments, exceptional bank and reorganisation costs, £0.5m (2007: £2.9m).
- Loss before tax £1.8m (2007: Profit £2.8m).
- Earnings / (loss) per share (7.51p) (2007: 11.00p).
- Senior debt facilities renegotiated and recommitted to December 2009.
- New business for Asset Finance and Property Finance Divisions £3.9m and £2.0m respectively (2007: £4.0m and £4.3m).
- Venture Finance new business ceased for the foreseeable future.
- Group reorganisation completed and cost base significantly reduced.

David Hickey, Non-executive Chairman, said: "The six month period for the Group has been a challenging one, with a change in management and difficult market conditions affecting the Venture Finance division in particular. I am pleased that under the new management we have been able to recommit the senior debt facilities to December 2009 and I am also pleased to confirm that both the Asset Finance and Property divisions are trading in line with expectations."

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# **General Capital Group Plc**

## **Interim financial report**

**30 June 2008**

### **Chairman's Statement**

#### **Introduction**

The period to 30 June 2008 was one of challenge and change for General Capital. Trading conditions tightened for all areas of the business, although the Asset and Property Finance divisions traded well against a tougher background. The greatest adverse trading effects were seen in the Venture Finance division. In May, following a review of portfolio balances, the Board decided to recognise a material provision against the carrying values at 31 December 2007. Simultaneously, and as was announced in June, the Board decided to cease all new Venture Finance business.

#### **Trading Results**

The results for the first half show Group revenues of £5.6m, (2007: £6.8m) and an operating profit of £0.5m, (2007: £2.9m) before goodwill impairments, fair value adjustments, exceptional bank costs, re-organisation costs and tax. The shortfall in revenue compared to 2007 is attributable to a decline in fee income and gains made on investments in the Venture Finance ("VF") portfolio from £3.2m to £1.2m. Interest income for the six months was £4.4m, (2007: £3.6m) an increase of 22% and reflecting the increase in the size of the portfolio from the same period last year. Administrative expenses were £2.0m, an increase of £0.4m over 2007. Norton Folgate was only included in the consolidated results for three months in last year's figures. Since the period end the run rate of administrative costs has been significantly reduced.

As a result of the review of the Group's loan portfolio and amendments to its senior debt facilities, the Group has incurred exceptional costs of £0.6m. Redundancy and re-organisation costs of £0.3m have also been incurred.

Following the cessation of new Venture Finance business an impairment charge of £0.7m has been made against the carrying value of goodwill in respect of this subsidiary and a further impairment charge of £1.1m has been made against goodwill attributable to the Group's broking activities, recognising the difficult market conditions.

The continued volatility in interest rate markets has resulted in a positive reversal of £0.5m of the £0.8m fair value charge applied in the 2007 results. The fair value of these hedging instruments is expected

to continue to fluctuate for the foreseeable future but the Board considers the Group to be suitably hedged against interest rate movements.

The Group loss before taxation for the period, after accounting for the exceptional and one-off costs was £1.8m (2007: Profit £2.8m).

As a consequence of the impairment charges made against the Venture Finance portfolio and the associated losses, payment of dividends to holders of subsidiary company preference share capital has been suspended until distributable reserves are available within the subsidiary company.

The directors do not intend to recommend an interim dividend on ordinary shares.

### **Loan Portfolio**

The Group's loan portfolio remained relatively static for the period at £46.1m, compared to £47.4m at 31 December 2007. The Group continues to focus on collecting out the Venture Finance portfolio, minimising downsides and maximising upsides where possible, recycling cash into the Asset and Property Finance divisions and reducing the senior debt facilities.

### **Asset and Property Finance**

During the period, the Asset Finance division continued to make new advances against assets on a measured basis. Business volumes from introducer brokers fell but the quality remained acceptable as better covenanted clients and assets were both forced by the liquidity crisis towards secondary lenders. While margins did not increase significantly, the net effect is that the quality of the portfolio remains within target parameters.

The Property Finance portfolio continued to revolve profitably at its existing level of £10m. Whilst the volume of transactions has been scaled back significantly, in line with the uncertainty in the marketplace, opportunistic loans are still being made on a modest and short term basis, where the borrower has a good record known to the Group.

## **Venture Finance**

No new Venture Finance business has been written since April. The focus instead has been to review and continuously assess how the larger exposures in the Venture Finance portfolio will be able to redeem loans or realise investments either through cash flows or re-financings. Unsurprisingly, a number of the loans have gone into arrears and have been unable to service interest payments or meet capital repayment targets. The provisions made in respect of the carrying values at 31 December 2007 and as previously announced in June, amounted to £6.0m.

In addition to loan receivables the Venture Finance business continued to hold certain equity positions in a number of client and former client companies. At 1 January 2008, these were being carried at an aggregate valuation of £6.4m. Prices of quoted shares have generally fallen in the six month period and under IFRS fair value reporting conventions, these were being carried at a value of £3.2m at 30 June 2008. One material cash gain of £0.2m was realised in April.

## **Board Changes**

As previously announced, the Group appointed Steven Hartley as Chief Executive in April, and Mark Edworthy stepped down from the Board at the Annual General Meeting in August. During the past five months Steven has guided the Group through the changes required to restructure the Group's operating processes and he has reduced the cost base in line with short term trading needs. He also led the re-negotiation of the Group's bank facilities and covenants, following the decision to write down the carrying value of the Venture Finance division, which culminated in the announcement made in July, confirming the new arrangements.

Nick Marsham, the Finance Director, has decided to resign and will leave the Group at the end of September. Helen Votier Turner was appointed as Group Financial Controller and Company Secretary in August.

## **Bank facilities**

On 30 June 2008 the Group announced that, following impairment charges made within the Venture Finance division in the audited financial statements for the year ended 31 December 2007, it had successfully renegotiated terms and covenants with its senior debt providers. The revised terms require the Group to reduce utilisation of the facilities by at least £5m by 31 January 2009 and the Board remains confident that this will be achieved.

## **Current Trading and Prospects**

Trading since the period end has been broadly in line with the Board's expectations and the Group will continue to focus on writing profitable business within the Asset and Property Finance divisions. The Venture Finance division continues to generate portfolio realisations, in part or whole, to minimise further impairment risk to the Group.

In essence therefore the Board will continue to concentrate on cash generation. In parallel, while the market for additional debt funding lines is currently difficult, the Board nonetheless is watchful for opportunities which might broaden the business base of the Group.

David Hickey

Chairman

26 September 2008

# General Capital Group Plc

## Consolidated income statement

for the six month period ended 30 June 2008

		Six months ended		Year ended
		30 Jun	30 Jun	31 Dec
		2008	2007	2007
		Unaudited	Unaudited	Audited
Notes	£'000	£'000	£'000	£'000
<b>Revenue</b>				
Interest income		<b>4,363</b>	3,630	7,787
Fees and other income		<b>1,002</b>	1,767	4,185
Gains on investments		<b>216</b>	1,384	1,358
		<b>5,581</b>	6,781	13,330
Interest payable and related funding costs		<b>(1,595)</b>	(1,175)	(2,669)
Provisions for impairment – receivables		<b>(804)</b>	(803)	(8,293)
Provisions for impairment – investments		<b>(161)</b>	150	336
Other direct costs		<b>(369)</b>	(339)	(726)
Administrative expenses		<b>(2,039)</b>	(1,597)	(3,723)
Depreciation and amortisation		<b>(74)</b>	(77)	(157)
		<b>539</b>	2,940	(1,902)
Goodwill impairment		<b>(1,818)</b>	-	-
Fair value adjustment of hedging instruments		<b>537</b>	-	(753)
Exceptional bank and associated costs		<b>(608)</b>	-	-
Reorganisation costs		<b>(280)</b>	-	-
Other interest costs – dividends on preference shares		<b>(134)</b>	(140)	(274)
<b>Profit / (loss) before taxation</b>		<b>(1,764)</b>	2,800	(2,929)
Taxation	<b>2</b>	<b>(123)</b>	(490)	444

The above consolidated income statement should be read in conjunction with the accompanying notes

<b>Profit / (loss) for the period attributable to equity shareholders of the parent</b>		<u>(1,887)</u>	<u>2,310</u>	<u>(2,485)</u>
		<u>          </u>	<u>          </u>	<u>          </u>

<b>Basic and diluted earnings per share</b>	<b>4</b>	<u>(7.51)</u>	<u>11.00</u>	<u>(10.80)</u>
		<u>          </u>	<u>          </u>	<u>          </u>

*All amounts relate to continuing operations.*

## General Capital Group Plc

### Consolidated statement of recognised income and expense

for the six month period ended 30 June 2008

	Six months ended		Year ended
	30 Jun 2008	30 Jun 2007	31 Dec 2007
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Available-for-sale investments:			
Valuation gains / (losses) taken to equity	<b>(2,826)</b>	(122)	1,526
Transferred to profit and loss on disposal	<b>(82)</b>	(1,152)	(1,152)
Tax on items taken directly to or transferred from equity	<b>872</b>	382	(112)
<b>Net income / (expense) recognised directly in equity</b>	<b>(2,036)</b>	(892)	262
<b>Profit / (loss) for the period</b>	<b>(1,887)</b>	2,310	(2,485)
<b>Total recognised income and expense for the period attributable to equity shareholders</b>	<b>(3,923)</b>	1,418	(2,223)

# General Capital Group Plc

## Consolidated balance sheet

as at 30 June 2008

	As at 30 Jun 2008	As at 30 Jun 2007	As at 31 Dec 2007
	Unaudited	Unaudite d	Audited
Notes	£'000	£'000	£'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	198	309	258
Goodwill	3,563	5,541	5,381
Other intangible assets	102	148	123
Deferred tax	414	194	432
Available-for-sale investments	3,178	3,555	6,437
Trade receivables	20,156	23,107	21,209
	<u>27,611</u>	<u>32,854</u>	<u>33,840</u>
<b>Current assets</b>			
Trade and other receivables	27,187	20,821	28,216
Current tax receivable	864	-	634
Derivative financial instruments	118	-	-
Cash and cash equivalents	422	2,209	354
	<u>28,591</u>	<u>23,030</u>	<u>29,204</u>
<b>Total assets</b>	<u><u>56,202</u></u>	<u><u>55,884</u></u>	<u><u>63,044</u></u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	1,877	2,229	2,062
Borrowings	42,208	33,398	43,748
Derivative financial instruments	-	-	376
Current tax payable	493	913	454
	<u>44,578</u>	<u>36,540</u>	<u>46,640</u>
<b>Non-current liabilities</b>			

*The above consolidated balance sheet should be read in conjunction with the accompanying notes*

Trade and other payables		<b>106</b>	135	171
Borrowings		<b>399</b>	438	447
Derivative financial instruments		<b>239</b>	-	282
Deferred tax		<b>34</b>	145	735
		<b>778</b>	718	1,635
<b>Total liabilities</b>		<b>45,356</b>	37,258	48,275
<b>Equity</b>				
Called up share capital	<b>5</b>	<b>22,620</b>	22,620	22,620
Share premium account		<b>3,011</b>	3,227	3,011
Capital reserve		<b>80</b>	962	2,116
Profit and loss account		<b>(2,872)</b>	3,810	(985)
Reverse acquisition reserve		<b>(11,993)</b>	(11,993)	(11,993)
<b>Total equity</b>	<b>6</b>	<b>10,846</b>	18,626	14,769
<b>Total equity and liabilities</b>		<b>56,202</b>	55,884	63,044

*The above consolidated balance sheet should be read in conjunction with the accompanying notes*

## General Capital Group Plc

### Consolidated cash flow statement

for the six month period ended 30 June 2008

	Six months ended		Year ended
	30 Jun	30 Jun	31 Dec
	2008	2007	2007
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
<b>Cash flow from operating activities</b>			
Profit / (loss) before taxation	<b>(1,764)</b>	2,800	(2,929)
Interest payable	<b>1,498</b>	1,098	2,506
Depreciation of property, plant and equipment	<b>55</b>	52	107
Amortisation of intangible assets	<b>25</b>	25	50
Goodwill impairment	<b>1,818</b>	-	-
(Profit) / loss on disposal of property, plant and equipment	<b>(6)</b>	-	-
Fair value adjustment of hedging instruments	<b>(537)</b>	-	753
Gains on investments	<b>(216)</b>	(1,384)	(1,358)
Provision for loss on investments	<b>161</b>	42	(336)
	<b>1,034</b>	2,633	(1,207)
Changes in working capital			
(Increase) / decrease in trade and other receivables	<b>1,998</b>	(9,028)	(14,524)
Increase / (decrease) in trade and other payables	<b>(250)</b>	(157)	(440)
	<b>2,782</b>	(6,552)	(16,171)
Net cash generated / (used) in operations	<b>2,782</b>	(6,552)	(16,171)
Taxation paid	<b>(42)</b>	13	(288)
Interest payable	<b>(1,498)</b>	(1,098)	(2,506)
	<b>1,242</b>	(7,637)	(18,965)
Net cash inflow / (outflow) from operating activities	<b>1,242</b>	(7,637)	(18,965)
<b>Cash flow from investing activities</b>			
Acquisition of subsidiary / reverse acquisition	-	(1,398)	(1,365)
Purchase of property, plant and equipment	<b>(54)</b>	(29)	(57)
Proceeds from sale of property, plant and equipment	<b>65</b>	-	23
Purchase of intangible assets	<b>(4)</b>	-	-

*The above consolidated cash flow statement should be read in conjunction with the accompanying notes*

Purchase of available-for-sale investments	<b>(59)</b>	(164)	(1,247)
Proceeds from sale of investments	<b>466</b>	2,385	2,586
Net cash generated / (used) in investing activities	<b>414</b>	794	(60)
<b>Cash flow from financing activities</b>			
Proceeds from issue of share capital	-	10,000	10,000
Direct costs associated with the issue of new shares	-	(576)	(577)
Repayment of preference shares	-	(300)	(300)
Repayment of loan notes	-	(1,200)	(1,200)
Payment of hire purchase liabilities	<b>(68)</b>	(47)	(82)
Payment / proceeds from borrowings	<b>(1,520)</b>	1,074	11,318
Net cash generated / (used) in financing activities	<b>(1,588)</b>	8,951	19,159
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>68</b>	2,108	134
<b>Cash and cash equivalents at beginning of the period</b>	<b>354</b>	101	220
<b>Cash and cash equivalents at end of the period</b>	<b>422</b>	2,209	354

*The above consolidated balance sheet should be read in conjunction with the accompanying notes*

# **General Capital Group Plc**

## **Notes to the interim financial report**

### **for the six month period ended 30 June 2008**

#### **1 Basis of preparation and accounting policies**

The interim financial report for the six month period ended 30 June 2008 has been prepared by the Directors and is unaudited. The interim financial report was approved by the Board on 26 September 2008.

The interim financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), using accounting policies and practices consistent with those applied in the financial statements for the year ended 31 December 2007 and those expected to be applied in the financial statements for the year ending 31 December 2008. The Group has adopted, for the first time, the reporting requirements of IAS 34 'Interim Financial Reporting'.

The interim financial information has been prepared on the basis of all International Accounting Standards ("IAS") and IFRS published by the International Accounting Standards Board ("IASB") that are currently in issue and effective. New interpretations may be issued by the International Financial Reporting Interpretations Committee ("IFRIC") on existing standards and best practice continues to evolve. It is therefore possible that the accounting policies adopted by the Group in the preparation of this interim financial report may be updated by the time the Group prepares its full set of financial statements under IFRS for the year ending 31 December 2008.

The financial information contained in this report does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985. The financial information for the six month period ended 30 June 2007 and the year ended 31 December 2007 has been extracted from the interim financial report for the six month ended 30 June 2007 and the financial statements for the year ended 31 December 2007. A copy of the statutory accounts for the year ended 31 December 2007 has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under Sections 237 (2) or (3) of the Companies Act 1985.

#### **2 Taxation**

The corporation tax charge for the period has been estimated using a tax rate of 30%.

### 3 Segmental information

For management purposes, the Group is organised into four principal operating divisions; asset finance, property finance, venture finance and broking. The Group reports its revenue streams and trade receivables at a divisional level but it does not separately report its costs nor its sundry assets and liabilities.

#### Company revenue:

	Six months ended		Year ended
	<b>30 Jun 2008</b>	30 Jun 2007	31 Dec 2007
	<b>Unaudited</b>	Unaudited	Audited
	<b>£'000</b>	£'000	£'000
Asset finance	<b>1,635</b>	1,002	2,562
Property finance	<b>1,253</b>	858	2,189
Venture finance	<b>2,274</b>	4,642	7,900
Finance broking	<b>419</b>	279	679
	<b>5,581</b>	6,781	13,330

All amounts relate to continuing operations and have been wholly undertaken in the United Kingdom.

## General Capital Group Plc

### Notes to the interim financial report

for the six month period ended 30 June 2008

#### Loan portfolio:

	As at 30 Jun 2008 Unaudited £'000	As at 30 Jun 2007 Unaudited £'000	As at 31 Dec 2007 Audited £'000
Asset finance	17,329	13,251	17,888
Property finance	10,113	8,992	10,264
Venture finance	18,659	20,421	19,238
	<b>46,101</b>	<b>42,664</b>	<b>47,390</b>

#### 4 Earnings per share

	Six months ended 30 Jun 2008 Unaudited £	30 Jun 2007 Unaudited £	Year ended 31 Dec 2007 Audited £
Earnings attributable to equity shareholders	<b>(1,887,646)</b>	2,310,000	(2,484,792)
Weighted average	<b>25,133,042</b>	20,998,15	23,006,865

## 5 Share capital

Ordinary shares of £0.90 each	30 June 2008	
	Number	£
Authorised	35,000,000	31,500,000
	<hr/>	<hr/>
Allotted, called up and fully paid	25,133,042	22,619,738
	<hr/>	<hr/>
	Number	£
At 1 January 2007	16,628,335	14,965,502
Placing shares issued on 29 March 2007	7,692,400	6,923,160
Consideration shares issued on 29 March 2007	812,307	731,076
	<hr/>	<hr/>
At 30 June 2007, 31 December 2007 and 30 June 2008	<b>25,133,042</b>	<b>22,619,738</b>

# General Capital Group Plc

## Notes to the interim financial report

for the six month period ended 30 June 2008

### 6 Statement of changes in shareholders' equity

	Share capital	Share premium	Capital reserve	Profit and loss account	Reverse acquisition reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Shareholders equity at 1 January 2007</b>	<b>14,966</b>	<b>186</b>	<b>1,854</b>	<b>1,500</b>	<b>(11,993)</b>	<b>6,513</b>
Changes in equity:						
Revaluation increases / decreases	-	-	(122)	-	-	(122)
Released on disposal of available-for-sale investments	-	-	(1,152)	-	-	(1,152)
Deferred tax movements	-	-	382	-	-	382
Net income recognised directly in equity	-	-	(892)	-	-	(892)
Profit / (loss) for the period	-	-	-	2,310	-	2,310
Total recognised income and expense for the period	-	-	(892)	2,310	-	1,418
Nominal value of new shares issued	7,654	-	-	-	-	7,654
Premium on issue of new shares	-	3,618	-	-	-	3,618
Expenses of issue of new shares	-	(577)	-	-	-	(577)
<b>Shareholders equity at 30 June 2007</b>	<b>22,620</b>	<b>3,227</b>	<b>962</b>	<b>3,810</b>	<b>(11,993)</b>	<b>18,626</b>

	Share capital	Share premium	Capital reserve	Profit and loss account	Reverse acquisition reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Shareholders equity at 1 January 2007</b>	<b>14,966</b>	<b>186</b>	<b>1,854</b>	<b>1,500</b>	<b>(11,993)</b>	<b>6,513</b>
Changes in equity:						
Revaluation increases / decreases	-	-	1,526	-	-	1,526
Released on disposal of available-for-sale investments	-	-	(1,152)	-	-	(1,152)
Deferred tax movements	-	-	(112)	-	-	(112)
Net income recognised directly in equity	-	-	262	-	-	262
Profit / (loss) for the period	-	-	-	(2,485)	-	(2,485)
Total recognised income and expense for the period	-	-	262	(2,485)	-	(2,223)
Nominal value of new shares issued	7,654	-	-	-	-	7,654
Premium on issue of new shares	-	3,402	-	-	-	3,402
Expenses of issue of new shares	-	(577)	-	-	-	(577)
<b>Shareholders equity at 31 December 2007</b>	<b>22,620</b>	<b>3,011</b>	<b>2,116</b>	<b>(985)</b>	<b>(11,993)</b>	<b>14,769</b>



## General Capital Group Plc

### Notes to the interim financial report

#### for the six month period ended 30 June 2008

	Share capital	Share premium	Capital reserve	Profit and loss account	Reverse acquisition reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Shareholders equity at 1 January 2008</b>	<b>22,620</b>	<b>3,011</b>	<b>2,116</b>	<b>(985)</b>	<b>(11,993)</b>	<b>14,769</b>
Changes in equity:						
Revaluation increases / decreases	-	-	(2,826)	-	-	(2,826)
Released on disposal of available-for-sale investments	-	-	(82)	-	-	(82)
Deferred tax movements	-	-	872	-	-	872
Net income recognised directly in equity	-	-	(2,036)	-	-	(2,036)
Profit / (loss) for the period	-	-	-	(1,887)	-	(1,887)
Total recognised income and expense for the period	-	-	(2,036)	(1,887)	-	(3,923)
Nominal value of new shares issued	-	-	-	-	-	-
Premium on issue of new shares	-	-	-	-	-	-
Expenses of issue of new shares	-	-	-	-	-	-
<b>Shareholders equity at 30 June 2008</b>	<b>22,620</b>	<b>3,011</b>	<b>80</b>	<b>(2,872)</b>	<b>(11,993)</b>	<b>10,846</b>

#### Capital reserve

This reserve represents the difference between the fair value of available for sale investments and their cost, where fair value is greater.

#### Reverse acquisition reserve

This reserve was created as a result of the reverse acquisition of General Capital Group Plc in September 2006.

## **7 Post balance sheet events**

At the Company's Annual General Meeting held on 5 August 2008, shareholders approved the following changes to the Company's share capital:

### ***Increase in authorised share capital***

The Company's authorised share capital was increased from 35,000,000 ordinary shares of £0.90 each (£31,500,000) to 50,000,000 ordinary shares of £0.90 each (£45,000,000).

## **General Capital Group Plc**

### **Notes to the interim financial report**

#### **for the six month period ended 30 June 2008**

##### ***Share restructuring***

The Company's authorised share capital of 50,000,000 ordinary shares of £0.90, of which 25,133,042 are currently in issue, was divided into 2,263,159,262 new ordinary shares of £0.01 each ("New Ordinary Shares") and 25,133,042 deferred shares of £0.89 each ("Deferred Shares").

The rights attaching to the New Ordinary Shares, including voting and dividend rights, are the same as the rights attaching to the previous ordinary shares of £0.90 each. The rights attaching to the Deferred Shares each are minimal. They do not entitle holders to receive any dividend or other distribution or to receive notice of, attend, speak at or vote at general meetings of the Company. On a return of assets on a winding up they will only entitle the holder to the amounts paid up on such shares after repayment of the amounts paid on each New Ordinary Share. They will be deemed to have authorised the Company to appoint any person to execute on behalf of the holders of the Deferred Shares each a transfer of such shares to the Company, or such person as the Company may nominate, without any payment therefore and without the sanction of the holders of the Deferred Shares. The creation and issue of further shares which rank equally or in priority to the Deferred Shares or the passing of a resolution of the Company to cancel the Deferred Shares or to effect a reduction in capital shall not constitute a modification or abrogation of their rights.