THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, or the contents of this document, you should immediately consult a person duly authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

This document is an admission document relating to the Company which has been drawn up in accordance with the Rules of the Alternative Investment Market of the London Stock Exchange plc ("AIM") and the Public Offers of Securities Regulations 1995 as amended ("POS Regulations"), although it does not comprise a prospectus for the purposes of the POS Regulations. Accordingly, a copy of this document has not been delivered to the Registrar of Companies in England and Wales for registration in accordance with regulation 4(2) of the POS Regulations. The Directors, whose names appear on page 7 of this document, accept responsibility for the information contained in this document including individual and collective responsibility 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 does not omit anything likely to affect the import of such information.

Application will be made to the London Stock Exchange plc for all of the Ordinary Shares of the Company, both issued and to be issued, to be admitted to trading on AIM. The Ordinary Shares are not dealt on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange. The Ordinary Shares are not being made available to the public in conjunction with the Placing.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Further it is emphasised that no application is being made for admission of these securities to the Official List of the UK Listing Authority. London Stock Exchange plc has not itself examined or approved the contents of this document.

The rules of AIM are less demanding than those of the Official List of the UK Listing Authority. Prospective investors should read the whole text of this document and should be aware that investment in Blueheath Holdings plc is speculative and involves a degree of risk. **In particular, prospective investors should consider the section entitled "Risk Factors" set out in Part II of this document. All statements regarding the Company's business should be viewed in light of these risk factors.** It is expected that dealings in the Ordinary Shares will commence on AIM on 20 July 2004.

Blueheath Holdings plc

(Incorporated and registered in England and Wales with registered company no. 5145685)

Placing by
Evolution Beeson Gregory Limited
Nominated Adviser and Broker

of 15,289,256 new Ordinary Shares of 1p each at 121p per share and Admission to trading on the Alternative Investment Market

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Ordinary Share capital immediately following Admission

Authorised			*Issued and fully paid*	
Amount	*Number*		*Amount*	*Number*
£1,000,000	100,000,000	Ordinary Shares of 1p each	£410,576.57	41,057,657

The Placing is conditional, *inter alia*, on Admission taking place on or before 20 July 2004 (or such later date as Blueheath Holdings plc and Evolution Beeson Gregory Limited may agree, being not later than 31 August 2004).

The Placing Shares will, following allotment, rank *pari passu* in all respects with the existing issued ordinary share capital of the Company on Admission, including the right to receive all dividends and other distributions declared on the Ordinary Shares after Admission.

The Ordinary Shares have not been, nor will they be, registered under the US Securities Act of 1933 (as amended) or under any relevant securities laws of any state, territory or other jurisdiction of the United States, or under any applicable securities laws of Australia, Canada or Japan. The Ordinary Shares may not be offered for sale or subscription, or sold or subscribed, directly or indirectly, within the United States, Canada, Australia or Japan. This document must not be mailed or otherwise distributed or sent to or into the United States, Canada, Australia or Japan or to or by any national, resident or citizen of such countries. This document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of any 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 offer or solicitation in such jurisdiction. The distribution of this document in or into other jurisdictions may be restricted by law and therefore, persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

Evolution Beeson Gregory Limited, which is authorised in the United Kingdom under the Financial Services and Markets Act 2000 and which is regulated in the UK by the Financial Services Authority, is acting as nominated adviser and broker to the Company and no one else in connection with the Placing and proposed admission of the Ordinary Shares of the Company to trading on AIM and will not be responsible to any other person other than the Company for providing the protections afforded to customers of Evolution Beeson Gregory Limited or for advising any other person on the contents of this document or any transaction or arrangement referred to herein. Evolution Beeson Gregory Limited's responsibilities as the Company's nominated adviser and broker under the AIM Rules are owed solely to the London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of such person's decision to acquire shares in the Company in reliance on any part of this document. Evolution Beeson Gregory Limited has not authorised the contents of any part of this document for the purposes of Regulation 13(1)(g) of the POS Regulations. No representation or warranty, express or implied, is made by Evolution Beeson Gregory Limited as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). Evolution Beeson Gregory Limited will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Placing or any acquisition of Ordinary Shares in the Company.

Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays, Sundays and public holidays) at the offices of Evolution Beeson Gregory Limited, 100 Wood Street, London EC2V 7AN from the date of this document and for a period of one month from Admission.

CONTENTS

DEFINITIONS

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

"Act"	the Companies Act 1985, as amended
"Admission"	the admission of the entire issued and to be issued Ordinary Share capital of the Company to trading on AIM becoming effective pursuant to paragraph 6 of the AIM Rules
"AIM"	the AIM market operated by the London Stock Exchange
"AIM Rules"	the rules published by the London Stock Exchange governing admission to and the operation of AIM for AIM companies and their nominated advisers
"Articles"	the Articles of Association of the Company as adopted by a written resolution of the shareholders of the Company on 12 July 2004
"Barclays"	Barclays Bank plc
"Barclays' Invoice Discounting Agreement"	the invoice discounting agreement entered into between Blue Heath Direct Limited and Barclays dated 26 November 2001
"BBL"	British Bakeries Limited
"Bonus Issue"	the bonus issue of 399 ordinary shares of 1p each in the capital of Blue Heath Direct Limited in respect of each ordinary share of 1p each in the capital of Blue Heath Direct Limited in issue which was effected on 12 July 2004, arising from a capitalisation of the share premium of Blue Heath Direct Limited
"BWS"	beer, wines and spirits
"Cash & Carry"	retail warehouses offering groceries and other products at wholesale prices to convenience stores and other retailers of groceries where buyers travel to warehouses to pick up their own supplies
"Combined Code"	the Combined Code on Corporate Governance as appended to the Listing Rules
"Company"	Blueheath Holdings plc
"CREST"	the electronic, paperless transfer and settlement mechanism to facilitate the transfer of title to shares in uncertificated form, operated by CRESTCo Limited
"CREST Regulations"	the Uncertificated Securities Regulations 2001 including (i) any enactment or subordinate legislation which amends or supersedes those Regulations and (ii) any applicable rules made under those Regulations or any such enactment or subordinate legislation for the time being in force;
"Deed of Priorities"	the deed of priorities dated 1 July 2004 made between Lloyds, Barclays, Peder Smedvig Capital Limited and Blue Heath Direct Limited
"Delivered Wholesale"	wholesale of groceries and other products by direct delivery to convenience stores and other retailers of groceries and "Delivered Wholesaler" shall be construed accordingly
"Directors" or "Board"	the directors of the Company, whose names are set out on page 7 of this document

"EBITDA"	earnings before interest, taxation, depreciation and amortisation
"EPOS"	electronic point of sale
"Enlarged Issued Share Capital"	the issued Ordinary Share capital of the Company immediately following Admission and the Placing
"Evolution Beeson Gregory"	Evolution Beeson Gregory Limited, the Company's nominated adviser and broker, a member of the London Stock Exchange and regulated by the Financial Services Authority
"FMCG"	fast moving consumer goods
"Former Articles"	the articles of association of the Company adopted on the Company's incorporation on 4 June 2004
"Gist"	Gist Limited, formerly BOC Distribution Services
"Group" or "Blueheath"	the Company and its subsidiary, Blue Heath Direct Limited
"IGD"	The Institute of Grocery Distribution
"Impulse"	confectionary, crisps, snacks, nuts and soft drinks
"Independents"	individual shop owners who run retail premises and "Independent" shall be construed accordingly
"Leading Delivered Wholesalers"	Palmer & Harvey McLane (Holdings) Limited, Key Lekkerland and Nisa-Today (Holdings) Limited
"Listing Rules"	the Listing Rules of the UK Listing Authority made in accordance with section 74 of the Financial Services and Markets Act 2000
"London Stock Exchange"	London Stock Exchange plc
"Lloyds"	Lloyds TSB Commercial Finance Limited
"Lloyds' Debt Purchase Agreement"	the debt purchase agreement and related documentation entered into between Blue Heath Direct Limited and Lloyds and dated 1 July 2004 as further described in paragraph 11.10 of Part V of this document
"Lock-in Deeds"	the lock-in deeds dated 14 July 2004 entered into between certain shareholders and certain persons holding options or warrants over ordinary shares in the capital of Blue Heath Direct Limited with Evolution Beeson Gregory
"Multiple"	an organisation which has a number of convenience retail outlets, which are either managed on behalf of the organisation or commission operated and "Multiples" shall be construed accordingly
"NDC"	the 138,000 square foot national distribution centre located in Tamworth run by Gist on behalf of the Company
"NFRN"	the National Federation of Retail Newsagents
"Next Day Delivery"	the delivery of orders to customers the next day when placed before 11.00 a.m. on Monday to Thursday inclusive, with deliveries occurring Tuesday to Friday inclusive
"Non-Executive Directors"	Mark Summerhayes, David Morrison, Colin Smith and Ian Fraser
"Non Food"	includes batteries; health and beauty; household; office and stationery; photographic; and not-for-resale products
"Ordinary Shares"	ordinary shares of 1p each in the capital of the Company
"Placing"	the proposed conditional placing of the Placing Shares on behalf of the Company at the Placing Price by Evolution Beeson Gregory, pursuant to the Placing Agreement

"Placing Agreement"	the agreement dated 14 July 2004 and made between Evolution Beeson Gregory, the Directors and the Company relating to the Placing, details of which are set out in paragraph 10 of Part V of this document
"Placing Price"	121 pence per Ordinary Share being the price at which each Placing Share is to be issued under the Placing
"Placing Shares"	the 15,289,256 new Ordinary Shares which are the subject of the Placing
"POS Regulations"	the Public Offers of Securities Regulations 1995 (as amended)
"SDRT"	stamp duty reserve tax
"Shareholders"	the holders of Ordinary Shares
"Sku"	stock keeping unit
"Statutes"	the Act, the Companies Act 1989 and every other statute (including any orders, regulations or those subordinate legislation made thereunder, including the CREST Regulations) for the time being in force concerning companies and affecting the Company
"UK"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
"US", "USA" or "United States"	the United States of America, its territories and possessions, any state of the US and the District of Columbia and all other areas subject to its jurisdiction

PLACING STATISTICS

Placing Price	121p
Gross proceeds raised by the Placing	£18.5 million
Estimated proceeds of the Placing receivable by the Company, net of expenses	£16.7 million
Number of Ordinary Shares in issue immediately following the Placing	41,057,657
Market capitalisation of the Company following the Placing at the Placing Price	£49.7 million

EXPECTED TIMETABLE FOR THE PLACING AND ADMISSION

Admission and dealings in the Ordinary Shares expected to commence on AIM	20 July 2004
CREST accounts to be credited with Ordinary Shares	20 July 2004
Despatch of definitive share certificates (where applicable)	By 3 August 2004

DIRECTORS, SECRETARY AND ADVISERS

Directors	Colin Smith *(Non-Executive Chairman)* Douglas Gurr *(Chief Executive Officer)* Simon Mindham *(Chief Financial Officer)* Ian Fraser *(Non-Executive Director)* Mark Summerhayes *(Non-Executive Director)* David Morrison *(Non-Executive Director)*
All of whose business address is:	132 Upper Street London N1 1QP
Company Secretary	Simon Mindham
Registered and Head Office	132 Upper Street London N1 1QP
Nominated Adviser and Broker	Evolution Beeson Gregory Limited 100 Wood Street London EC2V 7AN
Solicitors to the Company	Weil, Gotshal & Manges One South Place London EC2M 2WG
Solicitors to the Nominated Adviser and Broker	Norton Rose Kempson House Camomile Street London EC3A 7AN
Reporting Accountants	Deloitte & Touche LLP Hill House 1 Little New Street London EC4A 3TR
Auditors	Deloitte & Touche LLP Leda House, Station Road, Cambridge CB1 2RN
Public Relations	Buchanan Communications 107 Cheapside London EC2V 7NH
Registrars and Receiving Agent	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH
Principal Bankers	Barclays Bank Plc London Corporate Banking 50 Pall Mall London SW1A 1QA

PART I

Information on the Group

Introduction

Blueheath is a wholesaler of groceries to convenience stores in the £16.4 billion UK grocery wholesale sector. The Group sells and arranges the distribution of approximately 3,300, primarily ambient, product lines to over 1,200 Independent and Multiple retail and leisure outlets within the UK. Blueheath's innovative business model, which the Directors believe represents a better approach to Delivered Wholesale, is founded on the basic principles of stripping out unnecessary supply chain costs and overheads and passing on financial and operational benefits to customers. This enables Blueheath to offer substantial price and service advantages to its customers.

The Group's core proposition is to offer customers a wholesale delivery service of groceries at close to Cash & Carry prices, which are lower (typically 2.6 per cent.) than those offered by Blueheath's competitors. Blueheath offers each of its customers (irrespective of size or location) a Next Day Delivery service and is currently achieving on average 98 per cent. fulfilment of orders within the time required. The Directors believe that this is a significantly better service than that offered by Blueheath's competitors.

An essential part of providing this level of service is Blueheath's proprietary IT system, which incorporates a proprietary stock predication algorithm. This enables Blueheath to operate on low stock levels for a grocery wholesaler by anticipating stock requirements of retailers and ordering from suppliers on a 'just in time' basis. By maintaining these low stock levels, typically three to five days compared to 39 days for the market leader in Delivered Wholesale, and short lead times, Blueheath minimises its investment in stock, and is able to offer its customers fresher products.

Two further elements of Blueheath's cost-saving business model are the use of spare distribution capacity in the market and the extensive use of process automation. Suppliers deliver direct to Blueheath's NDC, which is operated on their behalf by Gist. Gist 'pick' orders for delivery to regionally-based depots operated by third parties (principally BBL) who in turn make the final delivery to customers. By purchasing spare capacity within such third parties' existing national networks, Blueheath is able to provide Next Day Delivery throughout the UK on a variable cost basis with minimal capital investment.

In 2002, the Group's achievements were recognised by the IGD who awarded Blueheath the award for Supply Chain Excellence, stating that Blueheath "has sparked a revolution for wholesale". Previous winners of this award were Walkers Snack Foods, Tesco and Somerfield and the Company was runner-up to Asda in 2003. Since commencing trading in 2001, Blueheath's revenues have grown from zero and reached approximately £63 million in the financial year to February 2004 with a current annualised run rate of £70 million. The Group has already won several new Multiple accounts this financial year, including Texaco, Goldings, VUE (the re-named Warner Village Cinemas) and a leading bingo operator. The Group has also won Multiple accounts from all three Leading Delivered Wholesalers.

The Company is seeking to raise approximately £18.5 million (gross) in the Placing, primarily to fund expansion and strengthen the Company's balance sheet to improve its ability to win new business from larger Multiples.

Key strengths of the business

The Directors believe that Blueheath has a number of key strengths, including the following:

Experienced management team

Blueheath's Directors and senior management team have extensive experience and expertise within the UK grocery and distribution market, including Douglas Gurr (CEO), previously head of UK retail practice at McKinsey & Company, and Colin Smith (Non-Executive Chairman), previously Chief Executive of Safeway plc.

Operations in a large and growing market

Blueheath operates within the Delivered Wholesale segment of the £16.4 billion UK grocery wholesale market. Delivered Wholesale has grown at a compound annual growth rate of 5.3 per cent. since 1994 and is now worth £7.0 billion (Source: IGD).

Proprietary technology

The Group has developed its own IT system incorporating a proprietary stock prediction algorithm. This is a key driver of Blueheath's low-cost business model. In so far as is practicable, Blueheath has automated the ordering and dispatch process from one central location, enabling it to minimise its stock levels and working capital requirements. Blueheath's technology also means that it can provide a value-added service both to Multiples and suppliers (as described below).

Attractive core customer proposition

Blueheath offers customers switching to its service from a leading Delivered Wholesale competitor a price advantage with a better service. For customers switching from Cash & Carry, Blueheath can offer a Delivered Wholesale service at little extra cost, saving the customer the time normally taken to travel to and from a Cash & Carry depot. Blueheath offers all of its customers with access to the internet 24 hour ordering, Next Day Delivery (something that the Directors believe its competitors typically only offer to their larger clients), high fulfilment accuracy and fresher products.

Enhanced offering to Multiples

Having had no Multiple accounts 18 months ago, Multiples now account for approximately half of the Group's revenues. The Directors believe that one of the main reasons for this is the additional services that Blueheath provides, which include detailed store-by-store sales and Sku performance data on a timely basis. This enables the owners of Multiples to increase their volume rebates and promotional income by ensuring store managers and franchisees comply with centrally determined buying arrangements and product ranges.

Enhanced offering to suppliers

Blueheath is able to offer suppliers (mainly FMCG companies) product launches with shorter times to market than is common in the industry, the ability to monitor promotion effectiveness by customer segment and the ability to target offers to individual groups of customers. The Directors believe this forms a unique proposition to suppliers in the sector, which enables Blueheath to generate additional revenue streams and build good relationships with suppliers.

Operational gearing

Unlike traditional Delivered Wholesalers, Blueheath does not own and operate a distribution network and is able to exploit excess capacity of other national distributors. This allows Blueheath to maintain high operational gearing as its business grows because the Directors believe the Group will maintain low fixed costs.

Barriers to entry

The Directors believe that the key strengths of the Group when combined, differentiate it from its peers and provide overall advantages over its competitors (further details of whom are set out in the section titled "Competition" below). These companies would need to significantly change their business models in order to bring their systems and infrastructure in line with the Blueheath model, which the Directors believe would be expensive and difficult to achieve with their existing operations. The Directors do not believe that competitors could affordably match the Blueheath proposition without making these significant changes.

The UK grocery wholesale market

The UK grocery wholesale market has grown from £13.6 billion in value in 1994 to an estimated £16.4 billion in 2003 (Source: IGD) and is forecast to grow to £17.6 billion by 2007. This market can be split into two segments; Cash & Carry (which grew at a compound annual growth rate of 0.2 per cent. between 1994 and 2003) and Delivered Wholesale (which grew at a compound annual growth rate of 4.75 per cent. between 1994 and 2003).

The main product categories in Cash & Carry are tobacco (44 per cent.), BWS (19 per cent.) and Impulse (16 per cent.). The main product categories in Delivered Wholesale are tobacco (59 per cent.), Impulse (17 per cent.), Non Food (7 per cent.) and BWS (6 per cent.).

The growth in the UK grocery wholesale market has been predominantly driven by Delivered Wholesale, which in the UK has increased in value from £4.4 billion in 1994 to £7.0 billion in 2003. Much of this growth is a result of the increasing number of Multiples using the Delivered Wholesale service.

Delivered Wholesale, which avoids the need to spend time and effort travelling to warehouses and collecting product, is growing much faster than Cash & Carry, despite the higher prices charged. However, in spite of the benefits it provides, some retailers have not switched to Delivered Wholesale in its current form and the Directors believe price is the key factor, due to the traditional Delivered Wholesalers having to maintain a physical distribution network and passing this cost on to retailers.

Cash & Carry involves retailers travelling to warehouses to purchase groceries and the Cash & Carry sector still remains the major supplier to retailers, with the market now estimated to be worth £9.4 billion in value, up from £9.2 billion in 1994. Cash & Carry remains the most popular option, although its market share in relation to Delivered Wholesale has declined from 68 per cent. in 1994 to 57 per cent. in 2003, and is expected to decline further to 54 per cent. by 2007 (Source: IGD). The Directors believe that the popularity of Cash & Carry remains due to the cost savings perceived to be received by retailers and the flexibility to purchase groceries as needed and on a regular basis.

The Directors believe that the Blueheath business model addresses the needs of grocery retailers, whether they currently use Delivered Wholesale, Cash & Carry, or a mixture of the two, and that it addresses not only the pricing concerns of Cash & Carry users but also the service and fulfilment requirements of Delivered Wholesale users at a better price.

The Blueheath market opportunity

Blueheath's current focus is on the convenience sector of the £16.4 billion grocery wholesale market. This overall market includes leisure, catering and the convenience store chains operated by the major supermarkets. The Directors believe that each of these areas represents an opportunity for Blueheath. This overall market is forecast to continue to increase, in part due to what the Directors believe is a trend away from large out of town stores towards shopping at convenience outlets based on the consumer's requirement for greater convenience, in addition stricter planning policies are limiting the number of large stores being built. Based on the Company's discussions with large FMCG companies, it is apparent that these companies also recognise the consumer trend towards convenience stores and are concentrating their marketing efforts on impulse buying which is more prevalent in the convenience store market.

Within the Delivered Wholesale market, Blueheath is increasingly concentrating on Multiple accounts, nine of which now account for approximately half of Blueheath's revenues. During the financial year ended February 2004, the Group tendered for 10 Multiple accounts and won six of them. Three remained with their incumbent suppliers and the Company is still awaiting a decision on one account. At the beginning of the fiscal year 2005, the Group had tendered for 33 Multiple accounts, of which it has already won four and won the initial tranche of a fifth account. Four have decided to stay with their incumbent suppliers, and the Directors believe that the remaining 24, of which two are currently piloting Blueheath's Delivered Wholesale service at selected outlets, should reach decisions in the course of the current fiscal year. Multiple customers include: Snax 24 and Malthurst, which are franchised organisations where individuals run BP and Texaco petrol stations; VUE, a leading bingo operator; and, specific product categories for Texaco and Oddbins.

The Directors believe that Blueheath will be invited to tender for more potential business and bigger accounts as the business increases the scale of its operations and revenues and enhances its reputation. In addition, where Blueheath gains an account in a new market segment (e.g. a petrol forecourt or a cinema chain), the Company has experienced that this opens further discussions with other accounts in these sectors.

Many of the large supermarket groups have made strategic acquisitions in the convenience store sector in the last couple of years as they look for growth from this sector. Tesco has bought T&S and Adminstore, Sainsbury's has bought Bells, Co-op has bought Alldays, Balfour and Conveco and Londis is being acquired by Irish retailer, Musgrave. The Directors believe that this has created some distribution challenges, given that the current structure of the existing supermarket supply chains is geared to large-scale drops and the requirement for convenience stores is to use more and smaller vehicles due to the lower delivery volumes. The Directors believe that Blueheath's business model is well placed to address these challenges.

Apart from supermarkets, the Directors have identified significant opportunities to service outlets such as leisure sites, hospitals, schools, restaurants, pubs, fast food outlets and hotels due to the value-added service Blueheath can supply.

The Blueheath business

Blueheath is a wholesaler of groceries to convenience stores in the £16.4 billion UK grocery wholesale sector. The Group's innovative business model, which offers a different solution to the challenge of Delivered Wholesale, is founded on the basic principles of stripping out unnecessary supply chain costs and passing on financial and operational benefits to retailers. This enables Blueheath to offer significant price and service advantages to its customers. The Group has invested over £16 million in fully establishing its scaleable operations, IT systems and building turnover to £63 million.

Blueheath sells and arranges the distribution of approximately 3,300 product lines, including confectionery, soft drinks, tobacco, alcohol and household items, to over 1,200 outlets in the UK and the Directors believe that Blueheath's range covers the majority of items sold by an average convenience store.

Customers

Until January 2003, Independent customers constituted all of Blueheath's sales. Having built up credibility in the market, the Group began to target and has been very successful in winning Multiple accounts. These Multiples now account for approximately half of current Group revenue. Blueheath has never lost a Multiple account customer and the Directors believe this illustrates the level of service fulfilment that Blueheath provides to its customers. Multiple customers include Snax 24 and Malthurst, which are franchised organisations where individuals run BP and Texaco petrol stations, VUE and a leading bingo operator.

Sales and marketing

Blueheath operates a national account team to target Multiples, which are identified through industry experience and through research in the trade press. An additional team of 19 salesmen and regional managers directly market the Blueheath Delivered Wholesale service to Independents.

Where possible, Blueheath seeks to extend its customer base through utilising third parties. The Group currently has an arrangement with the NFRN, the UK's leading trade association for the independent sector, where the NFRN promotes Blueheath as the wholesaler of choice to its 22,000 members using its 40-strong field sales team in return for a small sales commission. An arrangement is also in place with Postmaster.net, an organisation that arranges commercial deals on behalf of its membership, which includes around half of the UK's approximately 17,000 sub-post offices.

The sales cycle in securing an Independent typically takes approximately two to four weeks, while the sales cycle for Multiples is longer, but with the potential value of each Multiple account being correspondingly higher.

Customer service

All of Blueheath's customers with access to the internet are able to place orders online and currently 84 per cent. of Blueheath's customer orders are placed via the Blueheath web site (www.blueheath.com) or via EPOS systems, with the balance made by telephone. Blueheath invoices customers directly and at present approximately 90 per cent. of customers settle their invoices by direct debit. This allows the Group to maintain low levels of debtors with invoices settled on average within 17 days of being sent. All customers are offered Next Day Delivery and benefit from the Blueheath price and service offer.

Customer retention (in particular for Independents) depends on the Group's continued ability to meet a high standard of fulfilment and on-time delivery. The Group has experienced periods of operational difficulty in the past caused primarily by poor supplier performance, which have led to the loss of custom from some Independents. The Directors believe that steps taken to insulate the business from the risk of supplier failure have largely resolved these issues and, over the past couple of years, the churn of Independents has reduced significantly as a result.

Multiple customers can receive access to detailed sales performance data by Sku and by store on a timely basis. By setting up their managers or franchisees to use the Blueheath system, owners can ensure that managers or franchisees will only see the correct product set, thus ensuring product purchasing compliance. The Directors believe that this reduces leakage of spend to Cash & Carries and that once Multiple customers have integrated the Blueheath system into their supply chain and make full use of its additional services, it is likely to be more difficult for leading Delivered Wholesale competitors to gain one of these Multiple accounts. The Directors believe that its competitors do not provide such timely and detailed sales performance data. The Group has never lost a Multiple account.

Suppliers

As at the date of this document, Blueheath has 110 active supplier relationships. These suppliers, include Imperial Tobacco, Coca Cola Enterprises, Walkers, Cadbury Trebor Basset and Nestle Rowntree. At present, tobacco suppliers account for approximately 62 per cent. of product supplies.

Blueheath has been able to secure and maintain good relationships with suppliers and it is able to offer its suppliers additional benefits through its IT systems. For example, the Group's proprietary IT system enables it to track each customer's order. The Directors believe that this allows Blueheath to collect more timely and detailed information on products sold than its competitors. Further to this, Blueheath has worked closely with a number of suppliers on the ability to monitor promotion effectiveness by customer/segment and the ability to target offers to individual groups of customers.

Procurement

Blueheath's procurement policy is based upon a proprietary, predictive algorithm. This technology is able to forecast daily levels of customer orders based on a number of factors including current stock levels, historic data for a product, historic sales volatility and forecast weather patterns. Orders are, therefore, placed with suppliers prior to orders being received from customers. The amount 'predicted' by the software is adjusted by a 'multiplier' figure that provides a comfort margin on the product's stock to allow for unusual orders, promotional cycles, growth in the business and the minimum drop sizes required by suppliers for Blueheath to obtain favourable volume based prices. The software is able to anticipate how many items will remain in stock when the delivery is received. If more stock is needed, it generates an appropriate order for that specific product on a Sku by Sku basis.

Blueheath's IT systems enable it to operate on a low number of stock days compared to its competitors and on a 'just-in time' system at the Group's NDC. Stock is procured on the basis that it will be sent to a customer within, on average, three to five days, compared to 39 days for the Group's largest competitor. This allows the Group to reduce its working capital cycle, minimise the required warehouse capacity and provide its customers with longer date codes and fresher products.

Fulfilment

The predictive procurement system allows Blueheath to enjoy a high level of order fulfilment with minimum working capital resources. Blueheath is on average currently achieving fulfilment levels of 98 per cent. on three to five days' stock, against those of a leading competitor, which the Directors believe has fulfilment levels of approximately 95 per cent. on 39 days' stock. The Directors believe that the accuracy of the system will increase as the Group builds up more historic data.

Operations

Order placement

Once a customer places an order, Blueheath's proprietary IT system automatically consolidates that order with existing orders and it is then sent electronically to the Blueheath NDC. The Group also has secure data centres at Canary Wharf in London and Faversham in Kent.

Warehousing and Picking

The centre of Blueheath's operations is its 138,000 square foot NDC, which is located in Tamworth in Staffordshire, chosen due to its central location and easy access to the national motorway network.

The NDC is managed by Gist, a leading distribution specialist, on Blueheath's behalf. Gist receives bulk deliveries from the suppliers directly, checks the deliveries and 'picks' customer orders into roll cages for delivery to regionally-based depots.

Despatch and Delivery

Roll cages are dispatched by Gist to an appropriate regional depot most of which are operated by BBL. Blueheath uses 13 of BBL's 15 depots, which are located throughout the UK. From these depots, BBL distributes the orders to the retailers. Through this arrangement, Blueheath utilises spare capacity within the lorries when they are making their daily bread deliveries or when they are lying idle during the day following the morning deliveries.

Unlike its principal competitors, the reason Blueheath chose not to invest in its own distribution infrastructure, was to take advantage of existing warehouse and distribution capacity available in the market. By purchasing spare capacity within existing national networks, Blueheath is able to deliver stock on a Next Day Delivery basis throughout the UK on a variable cost basis with minimal capital investment.

Blueheath is currently utilising less than 10 per cent. of the spare capacity of the BBL lorries, allowing significant capacity for further expansion of Blueheath's service. Blueheath also has a third party distribution relationship with Owner Drivers Network Limited, which can be expanded if required. This allows Blueheath not to be dependent on any one distributor. In addition, the Directors believe that there is sufficient warehouse capacity available at the NDC for Blueheath to expand its revenues to £250 million.

Competition

Blueheath competes with both Cash & Carries and traditional Delivered Wholesalers.

Cash & Carry

The Directors believe that within the Cash & Carry market, key competitors of the Group include companies such as Booker Cash & Carry Limited, Makro Self Service Wholesalers Limited and Bestway (Holdings) Limited.

Delivered Wholesale

The Directors believe that the Group's key competitors in the Delivered Wholesale market are Palmer & Harvey McLane (Holdings) Limited, Key Lekkerland and Nisa-Today's (Holdings) Limited.

Directors, senior management and employees

Executive Directors

Douglas Gurr, Chief Executive Officer, age 40

Douglas co-founded Blueheath and has been Chief Executive Officer of Blueheath since its inception. From 1995 to 2001 Douglas was at McKinsey & Company, where from 2000 to 2001 he was a partner and head of the UK Retail Practice and worked with a number of grocery retailers on supply chain and procurement. Prior to joining McKinsey & Company, Douglas was a Principal at the UK Department of Transport.

Simon Mindham, ACA, Chief Financial Officer, age 39

Simon joined Blueheath in October 2001 as Chief Financial Officer. Prior to joining the Group, Simon held a number of finance roles in the Cert Group, including acting as Finance Director for Cert Distributors, a wholesaler of high-value products to the independent sector.

Non-Executive Directors

Colin Smith, FCA, Non-Executive Chairman, age 57

Colin has been Chairman of Blueheath since August 2000. From 1993 to 1999, Colin was Chief Executive of Safeway plc, having previously been Group Finance Director and has over 20 years' experience in food retail and wholesale. Colin is also the Chairman of Poundland Holdings Limited and a Non-Executive Director of McBride plc.

Mark Summerhayes, Non-Executive Director, age 37

Mark has been a director of Blueheath since 2001. Mark is currently a Managing Director at Peder Smedvig Capital Limited who led the first round of investment in Blueheath. He was previously a consultant at Bain & Company, London where amongst other assignments he advised FMCG and retail clients across the UK and Europe.

David Morrison, Non-Executive Director, age 45

David has been a director of Blueheath since 2002. David has been Chief Executive Officer of Prospect Investment Management Limited ("Prospect") since December 1998. Prior to establishing Prospect, David worked in the venture capital sector with Blakeney Management Limited, at Botts & Company and at Abingworth Management. RIT Capital Partners, a client of Prospect, invested in Blueheath in August 2002.

Ian Fraser, C.A., Non-Executive Director, age 47

Ian has been a Non-Executive Director of Blueheath since its inception, and is currently Chief Operating Officer for Orange in the UK, having previously been Trading Director of Safeway Stores plc.

Senior management team

The Directors are assisted by a strong management team with both breadth and depth of experience comprising:

Chris Philp, formerly of McKinsey & Company, in charge of sales;

Velda Fitzpatrick, formerly of J Sainsbury plc, in charge of buying; and

Richard Ball, formerly of Hyperlink PLC, in charge of technology.

Employees

As at June 2004, in addition to the above Executive Directors, the Group had 58 full time permanent employees and 4 full time equivalent employees, analysed as follows:

Sales	26
Buying	8
Customer Services	12
Finance	8
IT Support and Development	4
Logistics	4
Total	62

Financial information

The financial information of Blue Heath Direct Limited over the three year period ended 28 February 2004 is set out in Part III of this document, from which the following table has been extracted without material adjustments. Potential investors should not rely on the summarised information below and should read the whole of this document.

	Year ended 2 March 2002 £'000	*Year ended 1 March 2003 £'000*	*Year ended 28 February 2004 £'000*
Turnover	12,195	33,494	62,676
Cost of Sales	(11,973)	(32,061)	(59,506)
Gross Profit	222	1,433	3,170
Operating Expenses	(3,660)	(6,955)	(9,819)
Operating Loss	(3,438)	(5,522)	(6,649)
Loss on ordinary activities before taxation	(3,422)	(5,720)	(7,476)
Retained Loss	(3,606)	(6,134)	(8,130)

Blueheath has enjoyed significant revenue growth since incorporation in 2000 with turnover reaching approximately £63 million in the year ended February 2004. Margin in the business is dictated by sales volume, the negotiated level of gross margin and the sales mix between lower-margin tobacco sales and higher-margin non-tobacco sales. Specifically in the year ended February 2004, tobacco made up approximately 59 per cent. of turnover but less than 20 per cent. of gross profit. Blueheath's business is generally not seasonal. On average, a customer order consists of 114 cases, in 3 roll cages, amounting to approximately £1,700 of groceries.

As set out earlier in this Part I, unlike traditional Delivered Wholesalers, the Group does not own and operate a distribution network and is able to exploit the excess capacity of other national distributors. This allows Blueheath to maintain lower fixed costs and higher operational gearing. Distribution costs currently make up 56 per cent. of the operating costs and this includes the operations at the NDC (where the contract with Gist is on a cost-plus basis), delivery and trunking costs. These costs are primarily variable. The balance of costs are sales and administration and relate predominantly to payroll, head office and IT costs. Depreciation is very low as the Group does not need to own many fixed assets.

Blue Heath Direct Limited does not currently receive normal credit terms from the tobacco companies because it is a private company with no track record of profitability. Blueheath currently has to pay for tobacco two days in advance. It receives on average 22 days' credit from non-tobacco suppliers. Both non-tobacco gross margins and credit terms have improved significantly as Blueheath has grown its turnover, established itself in the market place and provided suppliers with value-added services. The Group has also recently been successfully targeting more non-tobacco Multiple accounts where better margins are achieved and less working capital is tied up.

Current trading and prospects

The results of the Group for the year ended 28 February 2004 are set out above and in Part III of this document. The current financial year has started well with monthly EBITDA losses improving from their peak of around £550,000 in November 2003 to just under £350,000 by May 2004 as the benefits of increased scale have begun to overtake the initial investment in fixed overheads.

The Group's core strategy is focused on achieving further significant revenue growth. The Group intends to achieve this principally through securing further Multiple accounts. While the Directors value the addition of Independents, a single Multiple account can add between 10 to 150 outlets at any one time and help the Group achieve break-even in relation to a particular account at an earlier date than single Independents.

As at 28 February 2004, the Group had identified up to 200 potential Multiple customers. Of these, four have been secured as customers: a leading bingo operator, Texaco, Goldings and VUE. The Directors believe that these four customers will generate annual sales in excess of £6 million. In addition, Blueheath has won the initial tranche of a fifth account and is currently in discussion with a further 24 Multiples, of which 2 are currently piloting Blueheath's Delivered Wholesale service at selected outlets.

The Directors anticipate that more favourable terms will be available as the Company grows and increases its negotiating power and that this should continue to have a positive impact on margins. The Directors anticipate that the current fixed cost base and distribution facilities will be able to cope with the Company's current forecast revenue growth. The Directors believe that if break-even is achieved there is potential for strong profitable growth thereafter due to the operational gearing of the Group. The Group has accumulated tax losses of £16.6 million which may be available for offset against future trading profits unless there is a change in control of the Group.

Reasons for Admission and Placing and Use of Proceeds

The listing of the Company's Ordinary Share capital on AIM will facilitate the equity fundraising by way of the Placing of new Ordinary Shares on behalf of the Company as described below. The Directors believe that Admission will:

- raise the Group's general profile and status with Independents;
- strengthen the Company's balance sheet to improve its ability to win new business from larger Multiples;
- raise the Group's profile with suppliers and improve its ability to attract better buying terms from suppliers, especially from the tobacco companies;
- assist in recruiting, retaining and incentivising skilled employees; and
- enable the Company to access a wider range of investors.

The net proceeds of the Placing receivable by the Company will be approximately £16.7 million. The net proceeds receivable by the Company will be applied as follows:

- to provide funds for working capital (including funds to enable the Group's expansion to offer chilled foods and to pay the expenses of the Company's proposed Admission) – £14.9 million; and
- to repay a £1.8 million bridging loan.

Corporate Governance

The Directors recognise the value of the Combined Code.

The Company intends, following Admission, to comply with the Combined Code so far as is practicable and appropriate for a public company of its size and nature.

The Board has established audit, remuneration and nomination committees with formally delegated duties and responsibilities. The four Non-Executive Directors will sit on each of the audit, remuneration and nomination committees, with Mark Summerhayes, David Morrison and Colin Smith being appointed as Chairman of the respective committees.

The audit committee will receive and review reports from the Company's management and the Company's auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the Group. The audit committee will have unrestricted access to the Group's auditors.

The remuneration committee will review the scale and structure of the executive Directors' remuneration and the terms of their service contracts. The remuneration and terms and conditions of appointment of the Non-Executive Directors are set by the Board. No Director may participate in any meeting at which discussions or decisions regarding his own remuneration take place. The remuneration committee will also administer the share option schemes.

The nomination committee will consider the size, structure and composition of the Board, retirements and appointments of additional and replacement directors and make appropriate recommendations to the Board.

The Company will take all reasonable steps to ensure compliance by the Directors and applicable employees with the provisions of the AIM Rules relating to dealings in securities of the Company and has adopted a share dealing code for this purpose.

Dividend Policy

The Directors do not intend to pay any dividends for the foreseeable future. It is the Directors' intention to reinvest any surplus funds in the development of the business, as is usual with a business at this stage of its development.

Group Share Option Schemes and Management Incentives

The Directors recognise the need to attract, incentivise and retain a high quality senior management team and employees and, to this end, the Company will continue to grant options intended to qualify as EMI options (on similar terms described in paragraph 8 of Part V of this document). In addition the Company is considering the design of an unapproved employee share scheme for senior management and Directors for adoption following Admission. The detailed terms of such new scheme have not yet been decided.

A bonus pool of up to £100,000 in cash will be made available to be divided amongst the Directors and senior employees following Admission as the remuneration committee may direct.

Tax reliefs potentially available to Investors

Further information regarding the UK taxation position of those wishing to apply for Placing Shares is set out in paragraph 9 of Part V of this document. If you are in any doubt as to your taxation position, you should consult your professional advisor immediately.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and to be transferred otherwise than by written instrument, in accordance with the CREST Regulations. The Company's Articles permit its shares to be evidenced in uncertificated form in accordance with the CREST Regulations. The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from Admission, and CRESTCo Limited has agreed to such admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

Lock-in arrangements

The Directors have given undertakings that, save in certain limited circumstances, they will not dispose of any of their shareholdings in the Company held by that Director on the date of Admission for a period of 12 calendar months from the date of Admission without the prior written consent of Evolution Beeson Gregory. The Directors holdings are set out in paragraph 6 of Part V of this document.

In addition certain shareholders and certain persons holding options or warrants over Ordinary Shares in the capital of Blue Heath Direct Limited (as further described in paragraphs 11.7 and 11.8 of Part V of this document) have entered into Lock-in Deeds with Evolution Beeson Gregory dated 14 July 2004 in relation to the Ordinary Shares held or to be held by them. These agreements cover approximately 99 per cent. of the issued share capital of Blue Heath Direct Limited immediately prior to the Share Exchange. Pursuant to these agreements those persons named above have agreed, save in limited circumstances, not to dispose of any of their shareholdings held in the Company on the date of Admission for a period of 12 calendar months from the date of Admission without the prior written consent of Evolution Beeson Gregory.

The persons referred to in the above paragraphs have also agreed, save in limited circumstances, not to dispose of any of their shareholdings for a period of 12 calendar months from the first anniversary of Admission other than through Evolution Beeson Gregory.

The Placing

On Admission, the Company will have 41,057,657 Ordinary Shares in issue and a market capitalisation of approximately £49.7 million. The Placing comprises the issue of 15,289,256 new Ordinary Shares at the Placing Price by the Company to raise £18.5 million (gross) to realise approximately £16.7 million (net).

All of the Placing Shares being offered in the Placing are being placed by Evolution Beeson Gregory with institutional and other investors and the placing of the Placing Shares has been underwritten by Evolution Beeson Gregory. The Placing Shares being offered pursuant to the Placing will represent approximately 37.24 per cent. of the Enlarged Issued Share Capital. The new Ordinary Shares being offered pursuant to the Placing will rank *pari passu* in all respects with the existing Ordinary Shares. Further details of the Placing Agreement are set out in paragraph 10 of Part V of this document.

PART II

Risk Factors

In addition to all other information set out in this document potential investors should carefully consider the risk factors described below, which the Directors consider to be the most significant to potential investors in the Company, before making a decision to invest in the Company. If any of the following risks actually occur, the Group's business, financial condition, results or future operations could be materially adversely affected. In such circumstances, the price of the Company's shares could decline and investors could lose all or part of their investment. This document contains forward-looking statements that involve risks and uncertainties. The Group's results could actually differ materially from those anticipated in the forward-looking statements as a result of many factors, including, without limitation, the risks faced by the Group, which are described below and elsewhere in this document.

Limited operating history; continued losses

The Group has a limited operating history and has not yet achieved a break-even operating position, and therefore must be considered to be in its formative and growth stages. Potential investors should be aware of the difficulties, delays and expenses normally encountered with an enterprise in its growth phase, many of which are beyond the Group's control. These include, but are not limited to, marketing costs, competition and unanticipated costs and expenses. There can be no assurance that the Group's proposed business strategy will prove successful, or that the Group will ever be able to operate profitably and, as such, investors may lose all or a substantial portion of their investment. In addition, in light of the current growth phase of its business, the Group can be expected to continue to sustain substantial operating expenses without any assurance of generating significant revenues.

The Group operates in a competitive market

Many of the Group's competitors may have greater financial, operational, procurement and sales and marketing resources than it. The Group's ability to obtain or maintain any competitive advantage will require continued investment in the development of the Group's services, additional marketing activities and customer support services. There can be no assurance that the Group will have sufficient resources to continue to make this investment, that the Group's competitors do not devote significantly more resources to competing services or that the Group will be able to compete effectively. In addition, the Group cannot predict the pricing or promotional activities of its competitors or their effect on its ability to market and sell its services. In order to ensure that its services remain competitive, Blueheath may be required to reduce its prices as a result of price reductions or promotions by its competitors. This could adversely affect the results of the Group's operations.

Threat of new entrants

The Group's expansion plans may be materially affected by the entrance of new players into the market who are offering a cheaper and better service. If the market becomes more competitive with similar products and services, especially in the Group's target area, then the Group's effectiveness in winning new Independent and Multiple accounts may be severely diminished.

Dependence on access to additional capital in the future

The Group is dependent upon the proceeds of the issue of the Placing Shares to accomplish its long term objectives, if these objectives are not achieved it is possible that investors will lose all or a substantial portion of their investment. The Group believes that the anticipated proceeds from the issue of the Placing Shares will provide working capital sufficient to achieve its proposed short term business objectives and to implement its marketing strategies. However, this belief cannot give rise to an assumption that its cost estimates are accurate or that such proceeds, if received, will be sufficient for these purposes. If further financing is required, it may be raised through equity offerings, joint ventures or other collaborative relationships, borrowings and other sources.

If additional funds are raised through the issue of equity securities, the percentage ownership of the then current shareholders of the Company may be reduced and such equity securities may have rights, preferences or privileges senior to those of the holders of the Placing Shares. In addition, there can be no assurance that further financing will be available or if available that it can be obtained on terms satisfactory to the Group. In the event that the Group is unable to obtain additional financing when required, the Group may be forced to curtail its operations which could result in the loss by investors of their entire investment in the Company.

Dependence on relations with third parties

The Group's business is dependent on relations with third party suppliers, warehousers and distributors. If there is any interruption to the products or services provided by third parties or those services are not as scaleable as anticipated, the Group's business and results of operations may be adversely affected and the Group may be unable to find adequate replacement products or services acceptable to customers on a timely basis, or at all.

Management of growth

The Group's plans to continue its growth will place additional demand on the Group's management, customer support, marketing, administrative and technological resources. If the Group is unable to manage its growth effectively, its business, operations or financial condition may be adversely affected.

IT systems errors and malfunctions

The Group's activities may be subject to risks associated with systems errors and malfunctions, which could result in service interruptions. Prolonged service interruptions could result in the loss of customers, which would have a material adverse effect on the Group's business and results of operations. While the Group does have normal disaster recovery planning, it cannot be assured that if a serious disaster affecting its business, systems and operations occurred, that such plans would be sufficient to enable the Group to commence trading within a 24 hour, or any other, period.

Internet reliance

The Blueheath business relies to a significant degree on the efficient and uninterrupted operation of its computer and communications systems and those of third parties including the internet. Any failure of current or new systems could impair the value of orders, the processing and storage of data and the day to day management of the Group's business. This could have a material adverse effect on the Group's business and the results of its operations.

Dividends

The Company does not anticipate paying any cash dividends in the foreseeable future because it intends to retain any earnings to finance the development of its business. There can be no assurance that the operations of the Group will result in sufficient revenues to enable the Company to operate at profitable levels or to generate a positive cash flow.

Trading market for the Ordinary Shares

The market price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Group, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, general economic conditions, legislative changes in the Group's sector and other events and factors outside of the Group's control.

In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Ordinary Shares.

Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. Prior to Admission, there has been no public market for the Ordinary Shares and there is no guarantee that an active market will develop or be sustained after Admission. It may be more difficult for an investor to realise his investment in the Company than in a company whose shares are quoted on the Official List of the UK Listing Authority.

Dependence on key personnel

The Group's success depends to a significant extent upon a limited number of key employees. The loss of one or more key employees could have a material adverse effect on the Group. The Company has entered into and is the beneficiary of keyman insurance policies in respect of Douglas Gurr and Chris Philp in the amount of £500,000 for each individual. No assurances can be given, however, that the loss of any executive officer or other key employee of the Company would not have a material adverse effect on the business, financial condition or results or operations of the Group. The Company has endeavoured to ensure that the key employees are incentivised, but the retention of such staff cannot be guaranteed.

UK and European Legislation and Regulation

Certain of the products that the Group distributes are subject to extensive regulation in particular, cigarettes, which account for approximately 62 per cent. of Blueheath's product supplies and approximately 59 per cent. of sales. Modification to existing legislation and/or regulation or the introduction of new legislative or regulatory initiatives may affect the markets for such products, the Group's operations and the conduct of its business. The cost and/or the effect of complying with such modified and/ or new legislation or regulation may have an adverse effect on the Group's business model and its results or operations.

Dependence on key customers

Nine Multiple account customers account for approximately half of the Group's revenues. Two customers, Snax and Malthurst, account for approximately 34 per cent. of Blueheath's sales in the year ended 28 February 2004.

There is no guarantee that the Group could replace the revenues generated by these customers adequately or at all if such customers ceased to deal with the Group. The loss of one or more of these customers may have an adverse effect on the Group's business and its results or operations.

The risk factors listed do not necessarily comprise all those associated with an investment in the Company.

PART III

Part A – Financial Information on Blue Heath Direct Limited

The Directors
Blueheath Holdings plc
132 Upper Street
Islington
London
N1 1QP

The Directors
Evolution Beeson Gregory Limited
100 Wood Street
London
EC2V 7AN

14 July 2004

Dear Sirs

Blue Heath Direct Limited

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 14 July 2004 relating to the proposed placing and admission to trading on AIM, a market of the London Stock Exchange, of the ordinary shares of Blueheath Holdings plc (the "Admission Document").

Basis of preparation

The financial information set out in this report, which has been prepared on the basis set out below and in accordance with applicable United Kingdom generally accepted accounting principles, is based on the audited financial statements of Blue Heath Direct Limited for the three years ended 28 February 2004, after making such adjustments as we considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of Blue Heath Direct Limited who approved their issue. The Directors of Blueheath Holdings plc are responsible for the contents of the 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 in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by our predecessor firm, Deloitte & Touche, who audited the financial statements for the year ended 2 March 2002 and by us relating to the audit of the financial statements for the two years ended 1 March 2003 and 28 February 2004, which comprise 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.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of Blue Heath Direct Limited as at the dates stated and of its losses and cash flows for the years then ended.

Consent

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

Profit and loss accounts

	Notes	*Year ended 2 March 2002* *£'000*	*Year ended 1 March 2003* *£'000*	*Year ended 28 February 2004* *£'000*
Turnover	2	12,195	33,494	62,676
Cost of sales		(11,973)	(32,061)	(59,506)
Gross profit		222	1,433	3,170
Distribution costs		(1,162)	(3,317)	(5,325)
Administrative expenses		(2,498)	(3,638)	(4,494)
Operating loss	4	(3,438)	(5,522)	(6,649)
Interest payable	5	(49)	(217)	(827)
Interest receivable		65	19	—
Loss on ordinary activities before taxation		(3,422)	(5,720)	(7,476)
Tax on loss on ordinary activities	6	—	—	—
Loss for the financial year		(3,422)	(5,720)	(7,476)
Finance charges on non-equity shares	7	(184)	(414)	(654)
Retained loss for the financial year		(3,606)	(6,134)	(8,130)
Basic loss per ordinary share	8	(18.8)p	(31.4)p	(41.0)p

There are no recognised gains or losses for the any of the periods other than as stated in the profit and loss accounts and, consequently, no statements of total recognised gains and losses are presented.

All activities derive from continuing operations.

Balance sheets

	Notes	*As at 2 March 2002 £'000*	*As at 1 March 2003 £'000*	*As at 28 February 2004 £'000*
Fixed Assets				
Tangible assets	9	574	393	220
Current Assets				
Stocks	10	201	578	788
Debtors	11	1,336	2,556	3,971
Cash at bank and in hand		11	2	—
		1,548	3,136	4,759
Creditors: Amounts falling due within one year	12	(2,746)	(3,043)	(5,232)
Net current (liabilities)/assets		(1,198)	93	(473)
Total assets less current liabilities		(624)	486	(253)
Creditors: Amounts falling due after more than one year	13			
Convertible debt		—	—	(6,725)
Total net (liabilities)/assets		(624)	486	(6,978)
Capital and reserves				
Called up share capital	15	7	27	27
Share premium account	16	3,143	9,943	9,888
Other reserves	16	20	30	42
Accrued preference dividend	16	207	621	1,275
Profit and loss account	16	(4,001)	(10,135)	(18,210)
Shareholders' (deficit)/funds		(624)	486	(6,978)
Shareholders' (deficit)/funds may be analysed as:				
Equity shareholders' deficit		(3,830)	(9,954)	(18,072)
Non-equity shareholders' funds	15	3,206	10,440	11,094
		(624)	486	(6,978)

Cash flow statements

	Notes	*Year ended 2 March 2002 £'000*	*Year ended 1 March 2003 £'000*	*Year ended 28 February 2004 £'000*
Net cash outflow from operating activities	20	(3,749)	(6,231)	(6,900)
Returns on investments and servicing of finance				
Interest paid		(44)	(195)	(130)
Interest received		65	19	—
Finance costs incurred in issue of other loans		—	—	(55)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(686)	(55)	(138)
Sale of tangible fixed assets		—	—	22
Cash outflow before management of liquid resources and financing		(4,414)	(6,462)	(7,201)
Management of liquid resources				
Cash withdrawn from/(repaid to) short term deposit		2,800	—	—
Financing				
Cash withdrawn from/(repaid to) short term debt facility		809	(15)	1,264
Issue of other loans		700	1,900	6,095
Repayment of other loans		—	(1,518)	—
Issue of share capital in the company		—	6,045	—
Costs associated with the issue of shares		—	(305)	—
(Decrease)/increase in cash in the year	21	(105)	(355)	158

Notes to the Financial Information

1. Accounting policies

The financial information set out in this report has been prepared on a going concern basis under the historical cost convention and in accordance with applicable accounting standards generally accepted in the United Kingdom.

The principal accounting policies that have been applied consistently throughout the period are described below.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost in equal annual instalments over the estimated useful lives of the assets, as follows:

Plant and machinery	20 per cent. – 33 per cent. per annum
Computing equipment	33 per cent. per annum
Fixtures and fittings	20 per cent. per annum

Website development costs

Design and content development costs are capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the costs of developing the design and content are charged to the profit and loss accounts as incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate.

Leases

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. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Taxation

Current tax, including UK corporation tax and foreign 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 company'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 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 by 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.

Turnover and the related cost of sales are recognised on despatch of goods.

Finance costs

Finance costs of debt and non-equity shares are recognised in the profit and loss accounts over the term of such instruments at a constant rate on the carrying amount. Where the finance costs for non-equity shares are not equal to the dividends on these instruments, the difference is also accounted for in the profit and loss accounts as an appropriation of profits.

Convertible debt

Convertible debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Convertible debt is reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion.

2. Segmental analysis

The turnover, pre-tax losses and net (liabilities)/assets arise and reside in the United Kingdom and are attributable to the company's principal activity of providing a distribution service for the grocery sector in the United Kingdom.

3. Staff costs and directors' remuneration

	Year ended 2 March 2002 £'000	*Year ended 1 March 2003 £'000*	*Year ended 28 February 2004 £'000*
Directors' remuneration			
Fees	183	221	206
Amounts paid to third parties for the provision of directors' services	20	30	4
The amount in respect of the highest paid director is as follows:			
Emoluments	90	123	120

The company did not make any contributions to pensions schemes in respect of the directors (2003 – nil, 2002 – nil).

The directors held the following options over shares:

			Ordinary shares of 1p		
	Exercise price	*Expiry date*	*2 March 2002*	*1 March 2003*	*28 February 2004*
Douglas Gurr	£479.75	31 May 2010	—	687	687
Chris Philp	£479.75	31 May 2010	—	687	687
Colin Smith	£479.75	31 May 2010	—	162	162
Ian Fraser	£479.75	31 May 2010	—	56	56

All options were granted on 15 July 2002. No options were exercised during the period.

3. Staff costs and directors' remuneration (continued)

	Year ended 2 March 2002 No.	*Year ended 1 March 2003 No.*	*Year ended 28 February 2004 No.*
Average number of persons employed			
Sales and distribution	16	29	30
Administration (including directors)	20	28	33
	36	57	63

	Year ended 2 March 2002 £'000	*Year ended 1 March 2003 £'000*	*Year ended 28 February 2004 £'000*
Staff costs during the period (including directors)			
Wages and salaries	1,189	1,872	2,025
Social security costs	123	180	211
	1,312	2,052	2,236

4. Loss on ordinary activities before taxation

	Year ended 2 March 2002 £'000	*Year ended 1 March 2003 £'000*	*Year ended 28 February 2004 £'000*
Loss on ordinary activities before taxation is stated after charging:			
Loss on sale of fixed assets	—	—	2
Depreciation – Owned assets	138	236	287
Operating lease rentals – other	121	171	205
Auditors' remuneration			
Audit services	16	20	20
Other services	3	4	11

5. Interest payable and similar charges

	Year ended 2 March 2002 £'000	*Year ended 1 March 2003 £'000*	*Year ended 28 February 2004 £'000*
Bank interest and charges	44	83	130
Other loan interest	—	112	630
Warrant licence charge	5	22	12
Amortisation of loan issue costs	—	—	55
	49	217	827

6. Tax on loss on ordinary activities

i. Analysis of tax charge on ordinary activities

	Year ended 2 March 2002 £'000	*Year ended 1 March 2003 £'000*	*Year ended 28 February 2004 £'000*
United Kingdom corporation tax at 30% (2003 – 30%, 2002 – 30%) based on the loss for the year	—	—	—

The accumulated trading losses give rise to a potential deferred tax asset of £4,972,096 (2003 – £2,839,445; 2002 – £303,719), which in accordance with accounting standards has not been recognised. The asset would be recovered if the company was able to generate suitable taxable profits in the future.

ii. Factors affecting current tax charge for the year

The difference between the total and current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	Year ended 2 March 2002 £'000	*Year ended 1 March 2003 £'000*	*Year ended 28 February 2004 £'000*
Loss on ordinary activities before taxation	(3,422)	(5,720)	(7,476)
Expected tax credit (@30%)	(1,027)	(1,716)	(2,243)
Effects of:			
Non-deductible expenditure	7	17	1
Capital allowances in excess of depreciation	(143)	63	65
Utilisation of tax losses	1,163	1,636	2,177
	—	—	—

7. Dividends paid and Proposed on equity and non-equity shares and other finance costs of non-equity shares

	Year ended 2 March 2002 £'000	*Year ended 1 March 2003 £'000*	*Year ended 28 February 2004 £'000*
Other finance costs of non-equity shares			
Preference dividends	184	414	654

8. Basic and diluted loss per ordinary share

Basic and diluted loss per ordinary share has been calculated by dividing the loss after taxation and accrued preference dividends for the years by 18,213,601, being the number of ordinary shares of Blueheath Holdings plc being issued to acquire the company.

	Year ended 2 March 2002 Number of shares	*Year ended 1 March 2003 Number of shares*	*Year ended 28 February 2004 Number of shares*
Weighted average number of shares:			
For basic earnings per share	(18.8)p	(31.4)p	(41.0)p

FRS 14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted EPS equals basic EPS.

9. Tangible fixed assets

	Computing equipment £'000	*Plant and machinery £'000*	*Fixtures and fittings £'000*	*Total £'000*
Cost				
At 4 March 2001	18	12	—	30
Additions	568	79	39	686
At 2 March 2002	586	91	39	716
Additions	48	7	—	55
At 1 March 2003	634	98	39	771
Additions	83	55	—	138
Disposals	—	(89)	—	(89)
At 28 February 2004	717	64	39	820
Depreciation				
At 4 March 2001	3	1	—	4
Provided during the year	116	15	7	138
At 2 March 2002	119	16	7	142
Provided during the year	199	29	8	236
At 1 March 2003	318	45	15	378
Provided during the year	228	51	8	287
Disposals	—	(65)	—	(65)
At 28 February 2004	546	31	23	600
Net book value				
At 2 March 2002	467	75	32	574
At 1 March 2003	316	53	24	393
At 28 February 2004	171	33	16	220

10. Stocks

	2 March 2002 £'000	*1 March 2003 £'000*	*28 February 2004 £'000*
Goods held for resale	201	578	788

There is no material difference between the historical cost of stock and its current cost.

11. Debtors

	2 March 2002 £'000	1 March 2003 £'000	28 February 2004 £'000
Trade debtors	1,128	1,758	3,292
Other debtors	97	415	622
VAT receivable	43	85	—
Prepayments and accrued income	68	298	57
	1,336	2,556	3,971

12. Creditors: amounts falling due within one year

	2 March 2002 £'000	1 March 2003 £'000	28 February 2004 £'000
Bank loans and overdraft	841	1,172	2,276
Other loans	685	—	—
Trade creditors	832	1,163	1,611
Other taxes and social security	—	—	112
Other creditors	47	57	56
Accruals and deferred income	341	651	1,177
	2,746	3,043	5,232

The bank loan represents an invoice discounting facility which is secured by a debenture held by Barclay's Bank plc as a fixed and floating charge over the assets and liabilities of the company. As part of the arrangement trade debtors are assigned to Barclay's Bank plc until funds are received. The amount outstanding on the bank loan relating to the invoice discounting facility at 28 February 2004 was £2,058,000 (1 March 2003: £794,000; 2 March 2002: £809,000).

The loan is repayable on receipt, by the company, of the monies from the debtor.

On 7 December 2001, Peder Smedvig Capital AS granted a secured loan facility of £1,000,000 to Blue Heath Direct Limited. Interest accrued on the loan on a daily basis at 10 per cent. per annum on the amount drawn down and is compounded every three months. The maximum loan outstanding during the year ended 1 March 2003 was £1,000,000; year ended 2 March 2002 – £700,000.

As disclosed in Note 15, the warrants over shares were issued in conjunction with the loan facility. The warrants were assigned a value of £20,000 and this was deducted from the loan and charged to the profit and loss account over the life of the loan (1 March 2003: £15,000; 2 March 2002: £5,000).

On 26 April 2002, Peder Smedvig Capital AS made a guaranteed loan of £600,000 to the company. During the year, this was increased to £1,600,000. Interest accrued on the loan on a daily basis at 10 per cent. per annum on the amount drawn down and is compounded every three months.

The loans were secured by a fixed and floating charge over all the company's assets, ranking behind Barclay's Bank plc. In August 2002, £1,082,000 of the combined total of £2,600,000 principal and accrued interest was converted into B convertible redeemable preference shares and the balance of the total facility was repaid before 1 March 2003.

13. Creditors: amounts falling due after one year

	2 March 2002 £'000	*1 March 2003 £'000*	*28 February 2004 £'000*
Convertible debt			
20% secured convertible 2005 loan notes and accrued interest			
Repayable between one and two years	—	—	6,835
Finance charges	—	—	(110)
	—	—	6,725

During the year ended 28 February 2004, the company issued £6,614,117 20 per cent. secured convertible loan notes due 2005. At 28 February 2004 loan notes with a nominal value of £6,219,117 had been allotted and paid up. On 24 March 2004 a further £10,000 was allotted and paid up.

The loan notes are secured by a fixed and floating charge over all the company's assets, ranking behind Barclay's Bank plc.

They are redeemable after 30 April 2005 at the option of the noteholder, or after 30 April 2004 at the option of Blue Heath Direct Limited. The loan notes are redeemable upon a liquidity event. A liquidity event is the sale of more than 50 per cent. of the issued share capital of Blue Heath Direct Limited or the sale, transfer or other disposal of all or substantially all of the goodwill, assets, undertaking or business of the company, or upon a winding up.

If a liquidity event occurs and triggers redemption the accrued interest will equal as a minimum 50 per cent. of the nominal amount or be increased upon such an event to this level. If the loan notes are repaid in circumstances other than a liquidity event, the accrued interest will equal as a minimum 20 per cent. of the nominal amount or be increased to this level.

The loan notes and accrued interest are convertible into 6 per cent. convertible redeemable preference B shares of £1 each at a price of £400.

If the company effects any capitalisation issues, subdivision, consolidation or reduction of its share capital or any purchase of its own shares or any other variation in its issued share capital or any distribution in specie then the conversion price shall be adjusted in such a manner as shall place the noteholder in the same position as it would have been had such events not taken place.

If the company makes any offer or invitation to its members by way of rights to subscribe for shares in the company, then the noteholder shall have the right to subscribe for the proportionate number and class of shares to the company on the same terms and conditions as such offer or invitation as if the notes held by the noteholder had been exercised, in the case of a rights issue immediately before such record date or, where the offer or invitation is to a third party immediately before the completion of the third party subscription.

14. Financial instruments

The financial instruments of the company principally comprise short term debtors and creditors, third party loans and cash. The company does not trade in financial instruments and neither uses, nor trades, in derivative financial instruments. Short term debtors and creditors have been excluded from disclosure as permitted by Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures". All of the company's financial assets and liabilities are denominated in sterling.

14. Financial instruments (continued)

Maturity of financial liabilities

The maturity profile of the company's financial liabilities at 2 March 2002, 1 March 2003 and 28 February 2004 was as follows:

	Non-equity shares 2004 £'000	*Borrowings 2004 £'000*	*Total 2004 £'000*	*Total 2003 £'000*	*Total 2002 £'000*
Amounts repayable:					
In one year or less (Note 12)	—	2,058	2,058	794	1,494
In more than one year but not more than two years (Note 13)	—	6,725	6,725	—	—
In more than two years but not more than five years (Note 15)	11,094	—	11,094	10,440	—
In more than five years (Note 15)	—	—	—	—	3,206
Total	11,094	8,783	19,877	11,234	4,700

All interest rates on non-equity shares and loans notes are fixed. The company has not taken out any interest rate hedging instruments in respect of this interest rate exposure.

15. Called up share capital

	2 March 2002 £'000	*1 March 2003 £'000*	*28 February 2004 £'000*
Authorised			
Ordinary shares of 1 pence each (2 March 2002 – 10,000,000 1 March 2003 – 10,000,000 and 28 February 2004 – 10,000,000)	100	100	100
A 6% convertible redeemable preference shares of £1 each (2 March 2002 – 20,000 1 March 2003 – 20,000 and 28 February 2004 – 20,000)	20	20	20
B 6% convertible redeemable preference shares of £1 each (2 March 2002 – nil 1 March 2003 – 20,000 and 28 February 2004 – 20,000)	—	20	20
	120	140	140
Called up, allotted and fully paid			
Ordinary shares of 1 pence each (2 March 2002 – 11,326 1 March 2003 – 11,326 and 28 February 2004 – 11,427)	—	—	—
A 6% convertible redeemable preference shares of £1 each (2 March 2002 – 6,654 1 March 2003 – 11,644 and 28 February 2004 – 11,644)	7	12	12
B 6% convertible redeemable preference shares of £1 each (2 March 2002 – nil 1 March 2003 – 14,862 and 28 February 2004 – 14,862)	—	15	15
	7	27	27

15. Called up share capital (continued)

On 19 August 2002, the company issued 4,990 £1.00 A convertible, redeemable preference shares at par of £4,990 and 13,715 £1.00 B convertible, redeemable preference shares at a premium of £6,253,486 to provide the company with working capital.

On 6 December 2002, the company issued 1,147 £1.00 B preference shares at a premium of £549,126 to provide the company with working capital.

On 25 September 2003, 101 ordinary shares were issued at par of £1.01 following the exercise of share options.

Non-equity shareholders' funds relate entirely to the A and B 6 per cent. convertible, redeemable preference shares (the "Preference Shares"). These shares carry an entitlement to dividend at the rate of 6 pence per share per annum.

The Preference Shares shall automatically convert into fully paid ordinary shares (at the rate of one ordinary share for each Preference Share) on listing and at any time prior to a listing any holder of Preference Shares may convert all or part of his holding into fully paid ordinary shares (at the rate of one ordinary share for each Preference Share). Other than on listing the company cannot demand conversion of any Preference Shares.

At any date after 16 August 2007, any holder of Preference Shares is entitled by notice in writing to the company to require redemption of all of the Preference Shares then in issue and held by him on such date. There shall be due on redemption of each Preference Share an amount payable by the company equal to the subscription price paid up on such share together with all preference dividends which have accrued.

On the winding up of the company the holders of ordinary share capital rank behind the Preference Shareholders and are not entitled to any surplus up to the amount of the subscription price plus any arrears of preference dividend. In addition, Preference B shares rank ahead of Preference A shares in determining payment for the aggregate subscription price paid for the shares. Thereafter the assets of the company are to be distributed evenly pari passu between the holders of Preference Shares and ordinary shares.

Each share carries one vote irrespective of its class.

Non-equity shareholders' funds

The non-equity shareholders' funds are split between the two classes of shares as follows:

	2 March 2002 £'000	*1 March 2003 £'000*	*28 February 2004 £'000*
6% convertible redeemable preference A shares	3,206	3,407	3,614
6% convertible redeemable preference B shares	—	7,033	7,480
	3,206	10,440	11,094

Warrants	*Number of warrants*	*Consideration £'000*
At 4 March 2001	—	—
Issued in year	1,088	20
At 2 March 2002	1,088	20
Issued in year	4,297	10
At 1 March 2003	5,385	30
Issued in year	1,500	12
At 28 February 2004.	6,685	42

In the year ended 2 March 2002, the company arranged financing which included the issue of warrants to the lender. The number of warrants issued to the lender is calculated by reference to both the total available facility of £1 million and amounts drawn down under the facility. At 2 March 2002 the number of warrants issued was 1,088.

15. Called up share capital (continued)

In the year ended 1 March 2003, the company re-arranged finance which included the further issue of warrants to the lender. The number of warrants was calculated with reference to both the total available facility of £1.6 million and amounts drawn down under the facility. An additional 3,448 warrants were issued to the lender during the year. These warrants have an exercise price of £321.90 per share and can be exercised at any time up to 20 April 2007.

In the year ended 1 March 2003, the company issued warrants in part consideration to financial advisors. The number of warrants issued was 849. These warrants have an exercise price of £479.75 per share and can be exercised at any time until the earliest of a merger or change of control of the company, the sale of substantially all of the assets of the company, on listing, or 15 August 2007.

In the year ended 28 February 2004, the company arranged finance which included the further issue of warrants to the lenders. The number of warrants was calculated with reference to both the total available facility of £0.6 million and amounts drawn down under the facility. 1,500 warrants were issued to the lenders during the year according to the individual amount lent. These warrants have an exercise price of £400.00 per share and can be exercised at any time up to 20 April 2007.

Share options

The company has one share option scheme. Options granted under this scheme are treated for tax purposes as either EMI options or unapproved options. At 28 February 2004, options for 3,469 shares (including the directors' options) had been granted (1 March 2003 – 3,368; 2 March 2002 – nil) and were outstanding. The exercise price is in the range of £150.00 to £479.75 (2003 – £0.01 to £479.75; 2 March 2002 – nil). During the year ended 28 February 2004, an option over 101 shares was exercised at a price of £0.01.

16. Combined statements of reconciliation of movement in shareholders' (deficit)/funds and reserves

	Called up share capital £'000	*Share premium account £'000*	*Other reserve £'000*	*Finance charge on non-equity shares £'000*	*Profit and loss account £'000*	*Total £'000*
At 4 March 2001	7	3,143	—	23	(395)	2,778
Retained loss for the financial year	—	—	—	—	(3,606)	(3,606)
Preference dividend	—	—	—	184	—	184
Issue of warrants	—	—	20	—	—	20
At 2 March 2002	7	3,143	20	207	(4,001)	(624)
Retained loss for the financial year	—	—	—	—	(6,134)	(6,134)
Preference dividend	—	—	—	414	—	414
Issue of share capital	20	6,803	—	—	—	6,823
Issue of warrants	—	(3)	10	—	—	7
At 1 March 2003	27	9,943	30	621	(10,135)	486
Retained loss for the financial year	—	—	—	—	(8,130)	(8,130)
Preference dividend	—	—	—	654	—	654
Amortisation of loan issue costs	—	(55)	—	—	55	—
Issue of warrants	—	—	12	—	—	12
At 28 February 2004	27	9,888	42	1,275	(18,210)	(6,978)

17. Capital commitments

At 28 February 2004 the company had capital commitments contracted for but not provided totalling £nil (1 March 2003 – £nil; 2 March 2002 – £18,000).

18. Contingent liabilities

The company has no contingent liabilities.

19. Operating lease commitments

The company has the following annual operating lease commitments:

	Land and buildings			Other		
	2 March 2002 £'000	1 March 2003 £'000	28 February 2004 £'000	2 March 2002 £'000	1 March 2003 £'000	28 February 2004 £'000
Operating leases which expire:						
Within one year	—	—	—	—	—	6
Between one to two years	—	—	—	22	27	44
Between two to five years	—	—	—	—	62	18
Over five years	93	93	93	—	—	—
	93	93	93	22	89	68

20. Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 2 March 2002 £'000	Year ended 1 March 2003 £'000	Year ended 28 February 2004 £'000
Operating loss	(3,438)	(5,522)	(6,649)
Depreciation of tangible assets	138	236	287
Loss on disposal of fixed assets	—	—	2
Increase in stock	(189)	(377)	(210)
Increase in debtors	(1,303)	(1,219)	(1,415)
Increase in creditors	1,043	651	1,085
Net cash outflow from operating activities	(3,749)	(6,231)	(6,900)

21. Analysis and reconciliation of net funds/(debt)

	Cash at bank and in hand £'000	Bank overdraft £'000	sub total £'000	Debt due within one year £'000	Debt due after one year £'000	sub total £'000	Liquid resources £'000	Net funds /(debt) £'000
At 4 March 2001	84	—	84	—	—	—	2,800	2,884
Cash flows	(73)	(32)	(105)	(1,509)	—	(1,509)	(2,800)	(4,414)
Other movements	—	—	—	15	—	15	—	15
At 2 March 2002	11	(32)	(21)	(1,494)	—	(1,494)	—	(1,515)
Cash flows	(9)	(346)	(355)	(367)	—	(367)	—	(722)
Other movements	—	—	—	1,067	—	1,067	—	1,067
At 1 March 2003	2	(378)	(376)	(794)	—	(794)	—	(1,170)
Cash flows	(2)	160	158	(1,264)	(6,095)	(7,359)	—	(7,201)
Other movements	—	—	—	—	(630)	(630)	—	(630)
At 28 February 2004	—	(218)	(218)	(2,058)	(6,725)	(8,783)	—	(9,001)

The other movements in the year ended 2 March 2002 relate to the valuation assigned to share warrants issued as part of financing arrangements during the year. These were valued at £20,000 and the cost is amortised over the life of the loan. This resulted in £5,000 being charged to the profit and loss account and £15,000 being allocated to the loan balance in that year as disclosed in Notes 5 and 15.

The other movements in the year ended 1 March 2003 relate to the conversion of debt valued at £1,082,000 into shares issued in that year and the amortisation of the £15,000 of warrant valuation which was allocated to the loan balance at the start of the year as disclosed in Note 5.

21. Analysis and reconciliation of net funds/(debt) (continued)

The other movements in the year ended 28 February 2004 relate to accrued interest of £630,000 included in the loan balance at the end of the year and £55,000 of loan issue costs amortised in the year as disclosed in Note 5.

	Year ended 2 March 2002 £'000	*Year ended 1 March 2003 £'000*	*Year ended 28 February 2004 £'000*
(Decrease)/ increase in cash in the year	(105)	(355)	158
Cash inflow from increase in debt financing	(1,509)	(367)	(7,359)
Cash inflow from decrease in liquid resources	(2,800)	—	—
Change in net funds resulting from cash flows	(4,414)	(722)	(7,201)
Decrease/(increase) in debt financing	15	1,067	(630)
Change in net funds resulting from non cash flows	15	1,067	(630)
Change in net funds	(4,399)	345	(7,831)
Net funds/(debt) at beginning of the year	2,884	(1,515)	(1,170)
Net debt at end of the year	(1,515)	(1,170)	(9,001)

22. Related party transactions

Mark Summerhayes is a director of Peder Smedvig Capital Limited. Peder Smedvig Capital Limited is a 100 per cent. subsidiary of Peder Smedvig Capital AS. Douglas Gurr and Colin Smith are directors of the company.

The details of loan facilities made available to the company by Peder Smedvig Capital Limited and Peder Smedvig Capital AS in the years ended 2 March 2002 and 1 March 2003 are disclosed in note 13.

During the year ended 28 February 2004, directors, companies related as a result of common directorships and other shareholders, subscribed for 20 per cent. secured convertible loan notes. The nominal value of the loan notes subscribed for and the accrued interest as at 28 February 2004 are as follows:

	Nominal value £	*Accrued interest £*
Peder Smedvig Capital AS	1,289,353	116,900
Peder Smedvig Capital Ltd	92,000	9,628
Douglas Gurr	10,000	981
Colin Smith	10,000	1,047
RIT Capital Partners Plc	1,745,647	103,643
Chase Nominees Ltd	12,061	1,672
Fresh Capital Group Ltd	211,176	14,371
Rose Nominees Ltd	28,880	4,004
Andrew Knight	55,000	2,200
Total	3,454,117	267,703

The terms of the 20 per cent. secured convertible 2005 loan notes are disclosed in note 13.

22. Related party transactions (continued)

On 24 March 2004, the existing shareholders and loan note holders also made available a bridging loan of £2 million to the company. The terms of this agreement are disclosed in note 23. The shareholders and directors who made £1,719,000 of the loan available are as follows

	Nominal value £
Peder Smedvig Capital AS	780,000
Douglas Gurr	10,000
Colin Smith	10,000
RIT Capital Partners Plc	660,000
Chase Nominees Ltd	25,335
Fresh Capital Group Ltd	118,000
Rose Nominees Ltd	60,665
Andrew Knight	55,000
Total	1,719,000

23. Post balance sheet events

Since the year end the company has secured additional finance in the form of a bridging loan and convertible loan notes in anticipation of a successful fundraising on the Alternative Investment Market ("AIM") of the London Stock Exchange. The directors have established a new holding company, Blueheath Holdings Limited, and propose a placing of the ordinary shares of that company and the admission of those shares to trading on AIM. The fundraising is expected to raise net funds of £14.9 million for the newly formed group after the repayment of the bridging loan. Conditional upon the admission to AIM, the convertible debt holders are expected to convert their 20 per cent. convertible secured loan notes into ordinary shares in the company, such shares being exchanged for an equal number of ordinary shares in Blueheath Holdings plc pursuant to the articles of association of the company.

The bridging loan agreement was entered into by the company on 26 March 2004 for the total loan facility of £2 million. As at 14 July 2004 £1.5 million has been drawn down. The bridging loan agreement includes a 20 per cent. premium that is payable upon repayment of the loan. The loan is repayable on a mandatory repayment event such as a listing of the company or holding company of the company.

Conditional upon all the holders of the Preference Shares serving notice on the company of their wish to convert such shares, on 12 July 2004, holders of the 20 per cent. convertible secured loan notes (the "Noteholders") agreed to amend the conversion rights of these instruments. The amended conversion rights permit loan notes to convert directly into ordinary shares of 1p each, as opposed to series B 6 per cent. convertible redeemable preference shares. The Noteholders have each delivered a notice of conversion to the company requiring their holding of Notes to be converted into ordinary shares, conditional on Admission ("Conversion"). Upon Conversion, pursuant to article 9 of the articles of association of the company (adopted by special resolution passed on 12 July 2004) the ordinary shares in the company issued through the Conversion will be automatically transferred to Blueheath Holdings plc in exchange for one new ordinary share in Blueheath Holdings plc for each ordinary share issued as a result of the Conversion.

On 12 July 2004, holders of the Preference Shares and B preference shares gave notice to the company of their wish to exercise their rights to convert these instruments into ordinary shares and deferred shares. Following this conversion the company has issued 34,107 ordinary shares. On conversion, the Preference Shares converted into ordinary shares and deferred shares. In accordance with the articles of association of the company the deferred shares were redeemed on 12 July 2004. On 12 July 2004, the shareholders passed a resolution re-designating each of the authorised but unissued Preference Shares as 100 ordinary shares of 1 pence each in the share capital of the company.

23. Post balance sheet events (continued)

On 12 July 2004, the directors increased the authorised share capital from £170,000 to £1,000,000 following the passing of the appropriate shareholder resolution.

The directors agreed that following the completion of conversion matters noted above, and the increase in authorised share capital, that on 12 July 2004 the company would perform a bonus issue of 399 new ordinary shares in respect of each ordinary share then in issue. The bonus issue is to be fully paid up as to nominal value from the share premium account.

On 12 July 2004, the shareholders entered into a share exchange agreement to exchange each ordinary share in the company for one ordinary share in Blueheath Holdings plc. For the purpose of the conversion of the loan notes, the Noteholders have agreed that the share for share exchange is not a liquidity event.

The company has terminated the Barclays Bank plc invoice discounting facility and has entered into a debt purchase and asset finance agreement with Lloyds TSB Commercial Finance Limited ("Lloyds") which commenced on 1 July 2004. Lloyds has agreed to purchase the book debts of the company in existence on 1 July 2004 and arising from contracts of sale with customers thereafter, for cash, to be calculated by reference to the value of the debts purchased and the advance of certain sums against stock, up to a funding limit of £5 million. The term of the agreement is 24 months and may be terminated thereafter by either party giving 6 months' written notice to the other to expire at the end of any calendar month.

On 14 July 2004 Blueheath Holdings plc entered into an agreement with Evolution Beeson Gregory, pursuant to which Evolution Beeson Gregory agreed as agent for Blueheath Holdings plc to use its reasonable endeavours to procure subscribers for 15,289,256 new ordinary shares in Blueheath Holdings plc and if and to the extent that it is not able so to procure, itself as principal to subscribe for the shares, in each case at 121 pence per share. This agreement can only be terminated by Evolution Beeson Gregory on, *inter alia*, any adverse change in conditions prior to Admission which is likely to affect the financial or trading position of the business or the prospects of the company and is of such magnitude or severity as to render the placing impracticable or inadvisable.

As required by paragraph 45(1)(b)(ii) of Schedule 1 of the Public Offers of Securities Regulations 1995, the names and addresses of the auditors who audited the accounts on which this report is based are, for the year ended 2 March 2002, Deloitte & Touche of Cambridge, UK, and for the years ended 1 March 2003 and 28 February 2004, Deloitte & Touche LLP of Cambridge, UK.

Yours faithfully

Chartered Accountants
London

PART III

Part B – Financial Information on the Company

Deloitte.

The Directors
Blueheath Holdings plc
132 Upper Street
Islington
London
N1 1QP

The Directors
Evolution Beeson Gregory Limited
100 Wood Street
London
EC2V 7AN

14 July 2004

Dear Sirs

Blueheath Holdings plc (the "Company")

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 14 July 2004 relating to the proposed placing and admission to trading on AIM, a market of the London Stock Exchange, of ordinary shares of the Company (the "Admission Document").

Basis of preparation

The financial information set out in this report is based on the audited non-statutory financial statements of the Company for the seven day period from incorporation on 4 June 2004 to 11 June 2004, to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the Directors of the Company who approved their issue. The Directors of the Company are responsible for the contents of the Admission Document in which this report is included. It is our responsibility to compile the financial information set out in our report from the non-statutory 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 in the United Kingdom. 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 non-statutory financial statements underlying the financial information. It also included an assessment of the non-statutory 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.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Company as at 11 June 2004.

Consent

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

Balance Sheet of the Company at 11 June 2004

	Notes	*2004* £
Current Assets		
Debtors: called up share capital not paid		0.01
Total assets less current liabilities and total net assets		0.01
Capital and reserves		
Called up share capital	4	0.01
Total equity shareholders' funds	5	0.01

Notes to the financial information

1. Background to the Company

The Company was incorporated on 4 June 2004 under the name of Blueheath Holdings Limited and the Company re-registered as a public company on 13 July 2004. The Company has not yet commenced trading or operations and no dividends have been declared or paid since the date of incorporation.

2. Accounting policies

The financial information set out in this report has been prepared are prepared under the historical cost convention and in accordance with applicable accounting standards generally accepted in the United Kingdom.

The principal accounting policy that have been applied consistently throughout the period is described below.

Taxation

No charge for taxation has been made since the Company recorded neither a profit nor a loss for the period. There is no unprovided deferred taxation.

3. Staff costs and directors' remuneration

There were no full time employees other than directors during the period and the aggregate payroll costs were £nil. No director received any remuneration in the period for the services to the Company.

4. Called up share capital

Authorised:

	11 June 2004 £
10,000 ordinary shares of £0.01 each	100

Alloted and called-up:

	11 June 2004 £
1 ordinary share of £0.01 each	0.01

On 4 June 2004 on incorporation, one ordinary share was issued at par and on the same day the share was transferred to Douglas Gurr, a director of the Company.

5. Reconciliation of movement in equity shareholders' funds

	11 June 2004 £
New shares issued	0.01
Addition to equity shareholders' funds	0.01
Opening equity shareholders' funds on incorporation	—
Closing equity shareholders' funds as at 11 June 2004	0.01

6. Post balance sheet events

Since the period end the Company has proposed a placing of 15,289,256 new ordinary shares of the Company and the admission of the entire issued share capital of the Company to the Alternative Investment Market ("AIM") of the London Stock Exchange.

On 12 July 2004, by way of written resolution, the authorised share capital was increased from £100 representing 10,000 shares of £0.01 each to £1,000,000 representing 100,000,000 shares of £0.01 each.

On 12 July 2004 the Company acquired 100 per cent. of the share capital of Blue Heath Direct Limited. To facilitate this, the shareholders entered into a share exchange agreement to exchange each ordinary share in Blue Heath Direct Limited for one of the Company's ordinary shares. As at 12 July 2004, subsequent to the share exchange, the issued share capital of the Company is £182,136.01 representing 18,213,601 shares of £0.01 each.

As required by paragraph 45(1)(b)(ii) of Schedule 1 of the Public Offers of Securities Regulations 1995, the name and address of the auditors who audited the accounts on which this report is based for the period from incorporation to 11 June 2004 are Deloitte & Touche LLP of Cambridge, UK.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants
London

PART IV

Pro Forma Statement of Net Assets

Set out below is an unaudited pro forma statement of net assets of the Group, which has been prepared for the purpose of illustrating the effects of the Placing as if it had taken place on 28 February 2004. This statement has been prepared on the basis set out in the notes below for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Group.

	Net liabilities of Blueheath as at 28 February 2004 (note 1) £'000	*Net proceeds of the Placing (note 2) £'000*	*Conversion of debt (note 3) £'000*	*Pro forma net assets of Group £'000*
Fixed Assets				
Tangible assets	220	—	—	220
	220	—	—	220
Current Assets				
Stocks	788	—	—	788
Debtors	3,971	—	—	3,971
Cash at bank and in hand	—	14,900	—	14,900
	4,759	14,900		19,659
Creditors: Amounts falling due within one year	(5,232)	—	—	(5,232)
Net current (liabilities)/assets	(473)	14,900	—	14,427
Total assets less current liabilities	(253)	14,900	—	14,647
Creditors: Amounts falling due after more than one year				
Convertible debt	(6,725)	—	6,725	—
Total net (liabilities)/ assets	(6,978)	14,900	6,725	14,647

Notes

(1) The net liabilities of Blue Heath Direct Limited as at 28 February 2004 have been extracted without material adjustment from the Accountants' Report in Part III of this document.

(2) The net proceeds of the Placing are based on the gross proceeds of £18.5 million less the repayment of the bridging loan and accrued interest of £1.8 million entered into subsequent to 28 February 2004 and the estimated expenses of £1.8 million payable by the Company for the Placing.

(3) The conversion of debt represents the conversion of the 20% secured convertible 2005 loan notes into 7,554,800 ordinary shares of the Company. Save for this adjustment, no account has been taken of any trading or transactions since 28 February 2004.

PART V

Additional Information

1. The Company

1.1 Blueheath Holdings plc was incorporated and registered in England and Wales on 4 June 2004 under the Companies Act 1985 (the "**Act**") as Blueheath Holdings Limited with registered number 5145685 (the "**Company**"). By virtue of a written resolution dated 12 July 2004, the Company was re-registered on 13 July 2004 under section 43 of the Act as a public limited company and changed its name to Blueheath Holdings plc. The liability of the members of the Company is limited.

1.2 The head and registered office of the Company is at 132 Upper Street, Islington, London N1 1QP.

1.3 Blueheath Holdings plc is the holding company of Blue Heath Direct Limited.

2. Share capital

2.1 Following completion of the Placing, the authorised and issued share capital of the Company (of which all of the issued shares are expected to be fully paid up on or before Admission) as it is expected to be immediately following Admission is as follows:

	Authorised		*Issued*	
	Number	*£*	*Number*	*£*
Ordinary Shares of 1p each	100,000,000	1,000,000	41,057,657	410,576.57

The following table shows the authorised and issued share capital at the date of this document:

Authorised	*Number*	*Nominal Value*
Ordinary Shares	100,000,000	1,000,000
Issued and fully paid	*Number*	*Nominal Value*
Ordinary Shares	18,213,601	182,136.01

2.2 The following changes have occurred in the share capital of the Company since 4 June 2004, the date of its incorporation:

2.2.1 By a written resolution dated 12 July 2004, the sole shareholder of the Company on that date passed a written resolution (i) increasing the authorised share capital of the Company from £100 to £1,000,000 and (ii) granting the Directors general and unconditional authority (in substitution to all previous authorities), for the purposes of section 80 of the Act, to exercise all powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £1,000,000 provided that the authority shall expire on 4 December 2005 being the date 18 months from date of incorporation of the Company or, if earlier, at the conclusion of the next annual general meeting of the Company, save that the Directors may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if this authority had not expired;

2.2.2 A share exchange agreement dated 12 July 2004 2004 was entered between the Company, the holders of the entire issued share capital of Blue Heath Direct Limited and Blue Heath Direct Limited ("Share Exchange"). Pursuant to the terms of the Share Exchange, the Company acquired the entire issued share capital of Blue Heath Direct Limited in consideration for the issue of shares in the Company to the then shareholders of Blue Heath Direct Limited, such that the issued share capital of the Company immediately subsequent to the Share Exchange replicated (by reference to the numbers of shares held by each shareholder) the issued share capital of Blue Heath Direct Limited immediately prior to the Share Exchange.

2.2.3 By a written resolution of the holders of the £6,614,117 20 per cent. secured convertible loan notes 2005 (the "Noteholders") issued by Blue Heath Direct Limited (the "Notes") dated 12 July 2004 (which are more particularly described in paragraph 11.6 of this Part V), the Noteholders resolved to amend the terms of the Notes so that the Notes convert into ordinary shares of Blue Heath Direct Limited as opposed to Series B 6 per cent. convertible redeemable preference shares of Blue Heath Direct Limited. The Noteholders have each delivered a notice of conversion to Blue Heath Direct Limited requiring their holding of Notes to be converted into such ordinary shares, conditional on Admission ("Conversion"). Upon Conversion, pursuant to article 9 of the articles of association of Blue Heath Direct Limited (adopted by special resolution passed on 12 July 2004) the ordinary shares in Blue Heath Direct Limited issued through the Conversion will be automatically transferred to the Company in exchange for one new Ordinary Share for each ordinary share issued as a result of the Conversion. The stock transfer forms in relation to the transfer of the ordinary share in Blue Heath Direct Limited issued as a result of the Conversion will be stamped shortly after Admission. Prior to such stamping, these ordinary shares in Blue Heath Direct Limited will be beneficially owned by the Company. Legal ownership will pass after stamping when the register of members of Blue Heath Direct Limited is amended to reflect this transfer of shares.

2.2.4 By written resolution dated 12 July 2004, conditional on Admission on or around 20 July 2004, the shareholders of the Company granted the Directors general and unconditional authority (in substitution of any and all previous authorities), for the purposes of section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £817,864 provided that in the case of any such allotment (other than (a) allotments made in connection with the Placing (the "Initial Allotments") and (b) allotments made in exchange for a transfer of shares in Blue Heath Direct Limited made prior to, on or after Admission) such authority shall be limited to the allotment of relevant securities up to the aggregate nominal amount of one third of the Enlarged Issued Share Capital, provided that the authority shall expire on 4 December 2005, being the date 18 months from date of incorporation of the Company or, if earlier, at the conclusion of the next annual general meeting of the Company, save that the Directors may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority had not expired.

In addition, conditional upon Admission, the shareholders of the Company granted the following powers and authorities to the Directors and the Directors were (in substitution of any and all previous authorities) generally empowered pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the general authority conferred on them for the purposes of section 80 of the Act set out above as if section 89(1) of the Act did not apply to any such allotment provided that such power shall be limited to:

(i) the Initial Allotments;

(ii) the allotment of equity securities in connection with an issue in favour of holders of Ordinary Shares (whether by way of rights issue, open offer or otherwise) where the equity securities respectively attributable to the interests of such holder of Ordinary Shares on a fixed record date are proportionate (as nearly as may be) to the respective number of shares held by them (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or in relation to fractional entitlements); and

(iii) the allotment (otherwise than pursuant to paragraphs (i) and (ii) above) of equity securities having an aggregate nominal value of up to 5 per cent. of the Enlarged Issued Share Capital,

provided that such authority shall expire on 4 December 2005, being the date 18 months from date of incorporation of the Company or, if earlier, at the conclusion of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if such/authority had not expired.

2.3 Blue Heath Direct Limited has granted to certain of its employees options which are intended to qualify for Enterprise Management Incentive ("EMI") status. These options are exercisable in progressive tranches over a period of up to four years from the date of grant, but the directors have the discretion to allow their early exercise on completion of the Share Exchange (as described at paragraph 2.2.2). Prior to the Share Exchange, there was a Bonus Issue such that the board of Blue Heath Direct Limited resolved that the number of ordinary shares under each EMI option be increased on a 400:1 basis. It is envisaged, however, that these option holders will release their rights under the existing options in exchange for a grant of equivalent rights over shares in the Company. A letter has been sent to these option holders asking them to consent to the release of their rights under the options granted by Blue Heath Direct Limited in exchange for the grant of new options over an equal number of Ordinary Shares in the Company. Should the option holders refuse to accept this offer, they will retain their options over ordinary shares in Blue Heath Direct Limited (and upon exercise such shares will automatically transfer to the Company in exchange for an equal number of Ordinary Shares in accordance with the articles of association of Blue Heath Direct Limited). Such options would cease to qualify for EMI status 40 days after the Share Exchange.

Blue Heath Direct Limited has also granted options to each of Douglas Gurr, Chris Philp, Colin Smith, Ian Fraser, Andrew Hosie, Philip Smith, Stephen Boyce, Anthony McCarthy and Tim Fox which, although they are unapproved and do not qualify for EMI status, share the main features of the EMI options described above. Like the EMI options, these options are exercisable in progressive tranches over a period of up to four years from the date of grant, and the directors have the discretion to allow their early exercise on completion of the Share Exchange (as described at paragraph 2.2.2). As with the EMI options, prior to the Share Exchange there was a Bonus Issue such that the board of Blue Heath Direct Limited resolved that the number of ordinary shares under each unapproved option be increased on a 400:1 basis. It is envisaged that these option holders will release their rights under the existing options in exchange for a grant of equivalent rights over shares in the Company. A letter has been sent to such option holders asking for them to consent to the release of their rights under the options granted by Blue Heath Direct Limited in exchange for the grant of new options over an equal number of Ordinary Shares in the Company. Should the option holders refuse to accept this offer, they will retain their options over ordinary shares in Blue Heath Direct Limited (and upon exercise such shares will automatically transfer to the Company in exchange for an equal number of Ordinary Shares in accordance with the articles of association of Blue Heath Direct Limited).

Blue Heath Direct Limited has also granted rights to subscribe for shares in its ordinary share capital to certain investors. These rights are all fully exercisable at the date of this document.

Peder Smedvig Capital AS currently has the right to subscribe for 2,084,400 ordinary shares (5,211 ordinary shares prior to the Bonus Issue) in Blue Heath Direct Limited further to the Bonus Issue under two separate agreements dated 21 December 2001 (as subsequently amended on 15 August 2002) and 21 March 2003. The exercise price is 80.475p and £1 per share under each of these agreements. Upon the exercise of such right, the ordinary shares in Blue Heath Direct Limited will, pursuant to the articles of association of Blue Heath Direct Limited, be automatically transferred to the Company and the Company will issue Peder

Smedvig Capital AS 2,084,400 Ordinary Shares, following which, the total holding of Ordinary Shares in the Company in which Peder Smedvig Capital AS will be interested is 23.00 per cent. of the Enlarged Issued Share Capital.

Under an agreement dated 21 March 2003, RIT Capital Partners plc has the right to subscribe for a number of ordinary shares in Blue Heath Direct Limited at an exercise price of £1 per share up to an aggregate value of approximately £240,000. This right currently entitles RIT Capital Partners plc to 240,000 ordinary shares in Blue Heath Direct Limited further to the Bonus Issue (600 ordinary shares prior to the Bonus Issue). Upon the exercise of such right, the ordinary shares in Blue Heath Direct Limited will, pursuant to the articles of association of Blue Heath Direct Limited, be automatically transferred to the Company and the Company will issue RIT Capital Partners plc 240,000 Ordinary Shares, following which, the total holding of Ordinary Shares in the Company in which RIT Capital Partners plc will be interested is 19.36 per cent. of the Enlarged Issued Share Capital.

Under an agreement dated 21 March 2003, Fresh Capital Group Limited has the right to subscribe for a number of ordinary shares in Blue Heath Direct Limited at an exercise price of £1 per share up to an aggregate value of approximately £50,000. This right currently entitles Fresh Capital Group Limited to 50,000 ordinary shares in Blue Heath Direct Limited further to the Bonus Issue (125 Ordinary Shares prior to the Bonus Issue). Upon the exercise of such right, the ordinary shares in Blue Heath Direct Limited will, pursuant to the articles of association of Blue Heath Direct Limited, be automatically transferred to the Company and the Company will issue Fresh Capital Group Limited 50,000 Ordinary Shares, following which, the total holding of Ordinary Shares in the Company in which Fresh Capital Group Limited will be interested is 3.44 per cent. of the Enlarged Issued Share Capital.

Under an agreement dated 21 March 2003, JPMIB Nominees Limited (which is related to Rose Nominees Limited and Chase Nominees Limited, holders of Ordinary Shares) has the right to subscribe for a number of ordinary shares in Blue Heath Direct Limited at an exercise price of £1 per share up to an aggregate value of approximately £40,000. This right currently entitles JPMIB Nominees Limited to 40,000 ordinary shares in Blue Heath Direct Limited further to the Bonus Issue (100 ordinary shares prior to the Bonus Issue). Upon the exercise of such right, the ordinary shares in Blue Heath Direct Limited will, pursuant to the articles of association of Blue Heath Direct Limited, be automatically transferred to the Company and the Company will issue JPMIB Nominees Limited 40,000 Ordinary Shares, following which, the total holding of Ordinary Shares in the Company in which JPMIB Nominees Limited will be interested is 0.01 per cent. of the Enlarged Issued Share Capital.

Under a warrant instrument dated 15 August 2002, Altium Capital Limited had the right to subscribe for 849 ordinary shares in Blue Heath Direct Limited at an exercise price of £479.75 per share. Altium Capital Limited and Blue Heath Direct Limited entered into a deed on 12 July 2004 amending the terms of this instrument in order principally to reflect the Bonus Issue which has been effected in Blue Heath Direct Limited. Pursuant to this deed of amendment, Altium Capital Limited now has the right to subscribe for 150,000 ordinary shares in Blue Heath Direct Limited at an exercise price equal to the Placing Price. Upon exercise of this right, the ordinary shares in Blue Heath Direct Limited will, pursuant to the articles of association of Blue Heath Direct Limited, be automatically transferred to the Company and the Company will issue to Altium Capital Limited 150,000 Ordinary Shares, following which, the total holding of Ordinary Shares in the Company in which Altium Capital Limited will be interested is 0.37 per cent. of the Enlarged Issued Share Capital. In event that the right to subscribe for these 150,000 ordinary shares is not exercised with 18 months from Admission, the right will lapse.

Under the articles of association of Blue Heath Direct Limited, if any option, warrant or right to ordinary shares in Blue Heath Direct Limited is exercised at any time following completion of the Share Exchange, the shares issued in Blue Heath Direct Limited will automatically be transferred to the Company in exchange for an equal number of Ordinary Shares. As referred to in paragraph 2.2.3 of this Part V, stamping of the stock transfer forms relating to the transfer of such ordinary shares in Blue Heath Direct Limited will be required prior to legal ownership being able to pass.

2.4 Save as disclosed in this document, no commission, discounts, brokerages or other specific terms have been granted by the Company in connection with the issue or sale of any of its share or loan capital.

2.5 The new Ordinary Shares are in registered form and capable of being held in uncertificated form. Application has been made to CRESTCo for the Ordinary Shares to be enabled for dealings through CREST as a participating security. No temporary documents of title will be issued. It is expected that definitive share certificates will be posted to those shareholders who have requested the issue of new Ordinary Shares in certificated form by 3 August 2004.

3. Subsidiary Undertaking

The Company has the following subsidiary undertaking:

Name	*Registration Number*	*Status*	*Place of Incorporation*	*Interest held*
Blue Heath Direct Limited	4004640	Active	England and Wales	100% by the Company

4. Summary of the Memorandum and Articles of Association of the Company

4.1 *Memorandum of Association*

The Memorandum of Association of the Company provides that the principal objects of the Company are, *inter alia*, to carry on business as, amongst other things, a holding company. The objects of the Company are set out in full in paragraph 3 of the Memorandum of Association.

4.2 *Articles of Association*

The Articles contain, *inter alia*, provisions to the following effect:

4.2.1 *Rights attaching to Ordinary Shares*

(a) *Voting rights of members*

Subject to disenfranchisement in the event of (a) non-payment of any call or other sum due and payable in respect of any share or (b) any non-compliance with any statutory notice requiring disclosure of the beneficial ownership of any shares and subject to any special rights or restrictions as to voting for the time being attached to any shares (as to which there will be following Admission), on a show of hands every member who, being an individual, is present in person or by proxy or being a corporation, is present by a duly authorised representative who is not himself a member entitled to vote, on a show of hands shall have one vote and on a poll shall have one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

(b) *Dividends*

Subject to the rights attached to any shares issued on any special terms and conditions, dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid, but no amount paid up on a share in advance of a call shall be regarded as paid up on the share.

(c) *Return of capital*

Subject to the rights attached to any shares issued on any special terms and conditions, on a winding-up the surplus assets remaining after payment of all creditors of the Company will be divided amongst the members of the Company according to their respective holdings of shares. The liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by statute (a) divide amongst the members in specie the whole or any part of the assets of the Company, or (b) vest the whole or any part of the assets in trustees on such trusts for the benefit of members as the liquidator shall determine, but no member shall be compelled to accept any assets upon which there is any liability.

4.2.2 *Transfer of shares*

A member may transfer all or any of his uncertificated shares and the Company shall register the transfer of any uncertificated shares in accordance with any applicable statutory provision. The directors may refuse to register the transfer of an uncertificated share or any renounceable right of allotment of a share which is a participating security held in uncertificated form in accordance with the CREST Regulations to the extent that the Company is permitted to do so by the CREST Regulations, provided that where the uncertificated shares are admitted to AIM, such a refusal would not prevent dealings in the shares of that class taking place on an open and proper basis. If the board of directors refuses to register a transfer of an uncertificated share it shall, within two months of the date on which the operator instruction relating to such a transfer was received by the Company, send to the transferee notice of the refusal.

A member may transfer all or any of his certificated shares by an instrument in writing in any usual form, or in any other form which the directors may approve. The instrument of transfer shall be executed by or on behalf of the transferor and, where the share is not fully paid, by or on behalf of the transferee. The directors may, in their absolute discretion and without giving any reason therefore, refuse to register the transfer of a certificated share which is not fully paid up but shall not be bound to specify the grounds upon which such registration is refused provided that, where any such shares are admitted to AIM, such a refusal would not prevent dealings in the shares of that class taking place on an open and proper basis. The directors may also refuse to register a transfer of a certificated share or a renunciation of a renounceable letter of allotment, whether or not fully paid, unless the instrument of transfer is lodged, duly stamped or adjudged or certified as not chargeable to stamp duty, at the transfer office, or such other place as the directors may appoint and is accompanied by the certificate(s) for the share(s) to which it relates (except where the shares are registered in the name of a market nominee and no certificate has been issued for them) and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer or the person renouncing to effect the renunciation. If the directors refuse to register a transfer of a share they shall, within two months after the date on which the transfer was lodged with the Company, send to the transferee notice of the refusal.

The directors may refuse to register any transfer unless it is in respect of only one class of share and is in favour of not more than four transferees or renouncees.

4.2.3 *Changes in capital*

The Company may by ordinary resolution:

(a) increase its share capital by a sum to be divided into shares of such amounts as the resolution shall prescribe;

(b) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;

(c) sub-divide its shares, or any of them, into shares of a smaller amount than is fixed by the memorandum of association; and

(d) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the provisions of the Statutes and the AIM Rules and to the rights attaching to existing shares, the Company may:

(e) by extraordinary resolution purchase, or enter into a contract under which it will or may purchase, its own shares; and

(f) by special resolution reduce its share capital, any capital redemption reserve, share premium account or other undistributable reserve in any manner.

4.2.4 *Variation of rights*

Subject to the provisions of the Statutes, if at any time the capital of the Company is divided into different classes of shares, the rights attached to any class may be varied or abrogated in such manner (if any) as may be provided by those rights or in the absence of any such provisions, with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class. At any separate general meeting, the necessary quorum shall be two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class in question or, at any adjourned meeting of such holders, shall be one person holding shares of the class in question in person or by proxy whatever his or their holdings. Every holder of the shares of the class shall, on a poll, have one vote in respect of every share of the class held by them respectively and a poll may be demanded in writing by any holder of shares of the class present in person or by proxy.

4.2.5 *Directors*

(a) The number of directors (other than alternate directors) shall not be subject to a maximum number and shall not be less than two.

(b) A director shall not be required to hold any shares of the Company by way of qualification.

(c) There shall be no age limit for directors.

(d) At each annual general meeting one-third of the directors for the time being shall retire from office by rotation. The directors to retire by rotation shall include, firstly, any director who wishes to retire at the meeting and not offer himself for re-election and, secondly, those directors who have been longest in office since their last appointment or reappointment, provided always that each director shall be required to retire and offer himself for re-election at least every three years. The retiring director shall, if willing to act be deemed to have been reappointed, unless at the general meeting it is resolved not to fill the vacancy on a resolution for the reappointment of the director is put to the meeting and not passed.

(e) The directors (other than alternate directors) shall be entitled to such remuneration by way of fees for their services in the office of director as the directors may determine (not exceeding £200,000 per annum or such larger sum as the Company may, by ordinary resolution, decide). Such fee shall be divided between the directors as they agree or, failing agreement, equally. The fees shall be distinct from any salary, remuneration or other amount payable to a director.

(f) The directors may also be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the directors or of committees of the directors or in general meetings or separate meetings of the holders of any class of shares of the Company.

(g) The directors may provide benefits, whether by the payment of gratuities or pensions or by purchasing and maintaining insurance or otherwise, for the benefit of any persons who are or were at any time directors or the holders of any executive or comparable office of employment with the Company or any other company or undertaking which is or has been (a) a subsidiary of the Company or (b) otherwise allied to or associated with the Company or a subsidiary of the Company or (c) a predecessor in business of the Company or of any such subsidiary, or (d) for any member of his family (including a spouse and a former spouse) or any person who is or was dependent on him, and may (as well before as after he ceases to hold such office or employment) establish, maintain, subscribe and contribute to any fund and pay premiums for the purchase or provision of any such benefit.

(h) Subject to the provisions of the Statutes a director may be a party to or otherwise interested in any contract transaction arrangement or proposal with the Company or in which the Company is otherwise interested either with regard to his tenure of any office or place or profit or as vendor purchaser or otherwise. A director may hold any other office or place of profit under the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of director and may act by himself or through his firm in such professional capacity to the Company and in any such case on such terms as to remuneration and otherwise as the directors may arrange. Any remuneration shall be in addition to any remuneration provided for by any other article.

(i) A director who to his knowledge is in any way (directly or indirectly) interested in a contract, transaction, arrangement or proposal with the Company shall declare the nature of his interest at the meeting of the directors at which the question of entering into such contract transaction arrangement or proposal is first considered if he knows his interest then exists or in any other case at the first meeting of the directors after he knows that he is or has become so interested.

(j) A director shall not vote or be counted in the quorum on any resolution of the directors concerning his own appointment (including the fixing and varying of terms of appointment) as the holder of any office or place of profit with the Company or any other company in which the Company is directly or indirectly interested. Where proposals are under consideration concerning the appointment (including the fixing or varying of terms of appointment) of two or more directors to offices or employment with the Company or any body corporate in which the Company is interested the proposals may be divided and considered in relation to each director separately and (provided he is not under the Articles or for any other reason precluded from voting) each of the directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

(k) A director shall not vote or count in the quorum in relation to a resolution or a meeting of the directors in respect of any contract or arrangement or any other proposal whatsoever in which he has an interest which (together with any interest of a connected person) to his knowledge is a material interest. Notwithstanding the above, a director shall be entitled to vote (and be counted in the quorum) on: (a) any contract in which he is interested by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company; (b) the giving of any guarantee, security or indemnity to him in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings; or the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security; (c) any matter relating to an offer of shares, debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer the director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the director is to participate; (d) any contract, transaction, arrangement or proposal to which the Company is or is to be a party relating to another company, including any subsidiary of the Company, in which he and any persons connected with him do not to his knowledge (directly or indirectly) hold an interest in shares (as that term is used in sections 198 to 211 of the Act) whether as an officer, shareholder, creditor or otherwise representing 1 percent or more of any class of the equity share capital, or the voting rights, in that company or of any other company through which his interest is derived; (e) any contract, transaction, arrangement or proposal for the benefit of employees of the Company or any of its subsidiary undertakings (including in relation to a pension fund, retirement, death or disability benefits scheme or personal pension plan) which does not award him any privilege or benefit not generally awarded to the employees to whom the arrangement relates; and (f) any contract, transaction, arrangement or proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of directors or for the benefit of persons including directors.

4.2.6 *Borrowing powers*

The board of directors may exercise all the powers of the Company to borrow money and to pledge or grant security over all or any part of its undertaking, property and assets (both present and future) and uncalled capital and, subject to the Statutes, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligations of the Company or of any third party. The board of directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (as regards subsidiary undertakings only so far as by such exercise it can secure) that the aggregate principal amount outstanding at any time in respect of all borrowings by the Group (exclusive of any borrowings which are owed by one Group company to another Group company) after deducting the amount of cash deposited will not, without the previous sanction of the Company in general meeting, exceed an amount equal to 3 times the adjusted capital and reserves (as defined in the articles of association) or any higher limit fixed by ordinary resolution of the Company which is applicable at the relevant time.

4.2.7 *Unclaimed dividends*

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the directors so resolve, be forfeited, revert to and cease to remain owing by the Company.

5. Directors

5.1 The directors of the Company and their respective functions are set out on page 7 of this document.

5.2 Details of any directorship that is or was in the last 5 years held by each of the directors, and any partnership of which each of the directors is or was in the last 5 years a partner in addition to their directorships of the Company and its subsidiary undertakings are set out below:

Name	*Current directorships and partnerships*	*Previous directorships and partnerships*
Ian Ellis Fraser	Mainline Communications Group plc Midland Communications Distribution Limited	Checksolve Limited Ingleby (1390) Limited Safeway Stores Limited Orange Retail Limited Orange Pension Trustees Limited

Name	*Current directorships and partnerships*	*Previous directorships and partnerships*
Douglas John Gurr	NMSI Trading Limited	Direct2shop.com Limited McKinsey & Company
David John Morrison	Paypoint Limited Prospect Investment Management Limited Arundel House Enterprises Limited Venture Production plc Star Technology Group Limited Houghton Club Limited (The) MGT Trustee Limited MGT plc Luckington Properties Limited Vibration Technology Limited Paypoint Collections Limited Paypoint Network Limited Paypoint Retail Solutions Limited International Institute for Strategic Studies R.H.S. Enterprises Limited Deutsche Equity Income Trust PLC	Walkclose Limited Themis FTSE Fledgling Index Trust Plc
Simon John Mindham	BMR Property Limited	None
Colin Deverell Smith	Save the Children Fund CQR-Technologies Limited McBride PLC Poundland Willenhall Limited Poundland Holdings Limited Supaplants Limited Poundland Limited Assured Food Standards 2003	Safeway plc Safeway Stores Limited
Mark Richard David Summerhayes	PDV Limited Tuskerdirect Limited NM Technology Limited Finexia Limited Peder Smedvig Capital Limited Peder Smedvig Capital Special LP Limited	Blink Point Limited SB Capital Partners Number Master Limited Queercompany.com Limited

5.3 Save as disclosed below, at the date of this document none of the directors named in this document:

5.3.1 has any unspent convictions in relation to indictable offences;

5.3.2 has been declared bankrupt or has entered into an individual voluntary arrangement;

5.3.3 was a director of any company at the time of or within the 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors with which such company was concerned;

5.3.4 was a partner in a partnership at the time of or within the 12 months preceding a compulsory liquidation, administration or partnership voluntary arrangement of such partnership;

5.3.5 has had his assets the subject of any receivership or was a partner in a partnership at the time of or within the 12 months preceding any assets thereof being the subject of a receivership; or

5.3.6 has been the subject of any public criticisms by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

5.4 Mr Summerhayes was a non-executive director of Number Master Limited representing the interests of Peder Smedvig Capital AS when it went into members' voluntary liquidation in March 2001.

5.5 Mr Summerhayes was a non-executive director of Queercompany.com Limited representing the interests of Peder Smedvig Capital AS when it went into creditors' voluntary liquidation in March 2002.

5.6 Mr Morrison was non-executive director of Patrizia Wigan plc representing the interest of Abingworth when it went into voluntary liquidation in 1992 and was dissolved in December 1995.

5.7 Mr Smith was a director of CQR Technologies Limited when it went into creditors' voluntary liquidation on 31 January 2003.

6. Directors' and other interests

6.1 The interests of the Directors (including the interests of persons connected with them which would, if the connected person were a director be required to be disclosed, and the existence of which is known to, or could with reasonable diligence be ascertained by that Director within the meaning of section 346 of the Act) in the issued share capital of the Company which are required to be notified by each Director to the Company pursuant to section 324 or 328 of the Act or are required to be entered in the register of directors' interests referred to in section 325 of the Act (all of which, save where stated otherwise in the notes below, are beneficial interests) as at the date immediately following Admission will be as follows:

Name	*Number of new Ordinary Shares in issue (as at the date of this document)*	*Percentage of new Ordinary Shares in issue (as at the date of this document)*	*Number of new Ordinary Shares (as at the date of Admission)*	*Percentage of Enlarged Issued Share Capital (as at the date of Admission)*	*Number of Ordinary Shares under option (as at the date of Admission)*
Douglas Gurr	1,665,600	9.14	1,677,600	4.09	274,800
Colin Deverell Smith	393,200	2.16	405,200	0.99	207,200
Mark Summerhayes	—	—	4,800	0.01	—
David Morrison	—	—	—	—	—
Ian Ellis Fraser	133,200	0.73	133,200	0.32	93,600
Simon John Mindham	—	—	—	—	200,000

6.2 Following the Bonus Issue (as further described in paragraph 2.3 of this Part V) and the board of that company resolving that the number of shares under options granted by it should be amended to reflect such issue, Douglas Gurr now has a right to subscribe for 274,800 ordinary shares in Blue Heath Direct Limited (687 such shares prior to the Bonus Issue); Colin Smith now has the right to subscribe for 207,200 ordinary shares in Blue Heath Direct Limited (518 such shares prior to the Bonus Issue); Ian Fraser now has the right to subscribe for 93,600 ordinary shares in Blue Heath Direct Limited (235 such shares prior to the Bonus Issue); and Simon Mindham now has the right to subscribe for 200,000 ordinary shares in Blue Heath Direct Limited (500 such shares prior to the Bonus Issue). As described in paragraph 2.3 of this Part V, a letter has been sent to such option holders asking them to consent to the release of their rights under the options granted by Blue Heath Direct Limited in exchange for the grant of new options over an equal number of Ordinary Shares in the Company. If Douglas Gurr, Colin Smith, Ian Fraser and Simon Mindham consent to such a release and then exercise in full their respective rights to subscribe for such Ordinary Shares, each will be interested in 4.76 per cent., 1.49 per cent., 0.55 per cent. and 0.49 per cent., respectively, of the Enlarged Issued Share Capital.

To the extent that such option holder does not provide his consent, the option will remain exercisable over ordinary shares in Blue Heath Direct Limited and, when exercised, such shares will immediately transfer to the Company in exchange for an identical number of Ordinary Shares being issued to the option holder.

6.3 Save as disclosed above, none of the Directors nor any member of his immediate family or any person connected with him holds or is beneficially or non-beneficially interested, directly or indirectly, in any shares or options to subscribe for, or securities convertible into, shares of the Company or any of its subsidiary undertakings.

6.4 In addition to the interests of the Directors set out in paragraphs 6.1 and 6.2 above, as at 13 July 2004 (being the latest practicable date prior to the publication of this document), insofar as is known to the Company, the following persons will at Admission, be directly or indirectly interested (within the meaning of Part VI of the Act) in 3 per cent. or more of the issued share capital of the Company:

Name	*Number of new Ordinary Shares in issue (as at the date of this document)*	*Percentage of new Ordinary Shares in issue (as at the date of this document)*	*Number of new Ordinary Shares (as at the date of Admission)*	*Percentage of Enlarged Issued Share Capital (as at the date of Admission)*
Christopher Ian Brian Mynott Philp	1,665,600	9.14	1,665,600	4.06
Peder Smedvig Capital AS	5,794,401	31.81	7,359,601	17.93
RIT Capital Partners PLC	5,608,400	30.79	7,707,600	18.77
Hugh Fitzwilliam Lay	—	—	1,364,800	3.32
Fresh Capital Group PLC	1,106,800	6.08	1,360,400	3.31

6.5 Save as disclosed above, there are no persons, so far as the Company is aware, who will be immediately following Admission interested, directly or indirectly, in 3 per cent. or more of the Company's issued share capital of the Company, nor, so far as the Company is aware, are there any persons who at the date of Admission, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

6.6 Save as disclosed in this document, no Director is or has been interested in any transactions which are or were unusual in their nature or conditions or significant to the business of the Company or the Group during the current or immediately preceding financial year or which were effected during any earlier financial year and remain in any respect outstanding or unperformed.

6.7 There are no outstanding loans or guarantees provided by the Company or the Group to or for the benefit of any of the Directors.

7. Directors' remuneration and service agreements

7.1 On 13 July 2004, the Company entered into a service contract with Douglas Gurr pursuant to which he receives a salary of £150,000 per year inclusive of any directors' fees payable to him under the Articles. In addition, the Company is considering a performance-related bonus scheme for senior management for adoption following Admission. The detailed terms of such Schemes have not yet been decided.

The Company has the right to terminate the employment of Douglas Gurr in certain circumstances, including a serious breach by him of his service contract and his gross misconduct or serious negligence. The service agreement provides for six months' notice by either party.

Douglas Gurr is subject to non-solicitation and non-competition clauses during employment and for one year thereafter.

7.2 On 13 July 2004, the Company entered into a service contract with Simon Mindham pursuant to which he receives a salary of £85,000 per year inclusive of any directors' fees payable to him under the Articles. In addition, the Company is considering a performance-related bonus scheme for senior management for adoption following Admission. The detailed terms of such Schemes have not yet been decided.

The Company has the right to terminate the employment of Simon Mindham in certain circumstances, including a serious breach by him of his service contract and his gross misconduct or serious negligence. The service agreement provides for six months' notice by either party.

Simon Mindham is subject to non-solicitation and non-competition clauses during employment and for one year thereafter.

7.3 On 13 July 2004, each of the Non-Executive Directors, David Morrison, Mark Summerhayes, Ian Fraser, Colin Smith entered into letters of appointment with the Company for an initial period of 3 years terminable by either party giving the other 1 month's written notice. The appointments are subject to the provisions of the Act and the Articles, in particular the need for periodic re-election.

Each Non-Executive Director is entitled to reimbursement of reasonable expenses and directors' and officers' liability insurance cover. Any necessary independent legal advice will be provided at the Company's expense.

Mark Summerhayes and David Morrison will each be paid £15,000 per annum, rising to £20,000 per annum if the Group breaks even. "Break even", for these purposes, means 3 consecutive months of positive EBITDA for the Group.

Ian Fraser will be paid £20,000 rising to £25,000 if break even occurs and Colin Smith, £40,000 rising to £50,000 if the Group breaks even.

7.4 Save as disclosed in this document, there are no service agreements or agreements for the provision of services existing or proposed between the Directors and the Company or Blue Heath Direct Limited.

7.5 In the financial year ended 28 February 2004, the aggregate remuneration paid including pension contributions and benefits in kind granted to the directors of Blue Heath Direct Limited was £206,000.

7.6 On the basis of the arrangements in force at the date of this document it is estimated that the aggregate remuneration payable including pension contributions and benefits in kind granted to the Directors for the year ending 28 February 2005 will be £260,000.

8. Share option schemes

8.1 *Existing Incentive Arrangements*

5,177 shares in the ordinary share capital of Blue Heath Direct Limited were set aside in the articles of association adopted by Blue Heath Direct Limited on 15 August 2002 as an "Option Pool", to be issued pursuant to the grant of options to employees of the company. Subsequent to the Bonus Issue (as further described in paragraph 2.3 of this Part V) and approval of the board of Blue Heath Direct Limited on 12 July 2004, the Option Pool was increased to 2,070,800 ordinary shares of Blue Heath Direct Limited to reflect the Bonus Issue. The exercise price in respect of each Option Pool share was also amended accordingly.

To date, 42 Directors and employees hold options over Option Pool shares, representing an aggregate of 5,076 shares (and, subsequent to the Bonus Issue and approval of the board of Blue Heath Direct Limited on 12 July 2004, over 2,030,400 ordinary shares). Options over 101 shares have been exercised to date.

Of the outstanding 5,076 shares under option (or 2,030,400 post Bonus Issue) from the Option Pool, 1,690 (or 676,000 post Bonus Issue) are subject to options granted in accordance with the provisions of Schedule 14 Finance Act 2000 or Schedule 5 Income Tax (Earnings and Pensions) Act 2003 as appropriate and are intended to qualify as EMI options. The remaining 3,386 shares under option from the Option Pool (or 1,354,400 post Bonus Issue), were granted under the same key terms as the EMI options, but do not qualify for EMI status under the relevant legislation.

As described in paragraph 2.3 of this Part V, it is envisaged that these option holders will release their rights under the existing options in exchange for a grant of equivalent rights over shares in the Company.

The options granted to the employees, both EMI and non-EMI, have the following main features:

8.1.1 *Option Shares*

The shares to which these options entitle the holder are shares in the ordinary share capital of Blue Heath Direct Limited.

8.1.2 *Exercise of Options and Lapse of Options*

None of the agreements confer any right to early exercise in the event of a "disqualifying event" within the meaning of the EMI legislation. Early exercise is only if and to the extent that the directors permit, in which case the option must be exercised within 40 days of the date on which the "disqualifying event" occurs.

Nor do any of the agreements confer a right to early exercise in the event of a change in control of Blue Heath Direct Limited. A "change in control" is defined as occurring when any person obtains control of the Company within the meaning of section 840 of the Taxes Act 1988 or, having such control, makes a general offer to acquire all the shares of the Company other than those which are already owned by him and/or another person acting in concert with him. Again, early exercise is dependent upon and limited to the extent of director permission, in which case the option must be exercised within 40 days following the change of control.

All the options lapse on the expiry of 10 years from the date of grant.

8.1.3 *Employment Requirement*

The options are subject to an exercise condition which requires the option holder to be an employee of Blue Heath Direct Limited or its subsidiary at the date of exercise. In the event that the option holder has ceased to be such an employee, the options may not be exercised.

Notwithstanding this exercise condition, the directors intend to allow 5 option holders who together originally held options over 640 Option Pool shares (and subsequent to the Bonus Issue (as described in paragraph 2.3 of this Part V) and approval of the board of Blue Heath Direct Limited on 12 July 2004, over 256,000 Option Pool Shares), and who have left Blue Heath Direct Limited to continue to exercise their options.

8.1.4 *Adjustment of option terms*

In the event of any variation of the share capital of Blue Heath Direct Limited, the directors may make such adjustments as it deems fair and reasonable to the nominal value of the shares in the company's ordinary share capital, and/or the number of shares under option, and/or the exercise price.

8.1.5 *Alterations*

The directors may at any time amend the provisions of the agreements, provided that no amendment may be made to adversely affect any subsisting rights of the option holder without the consent of the relevant option holder, unless such amendment is necessary to qualify the option as an EMI option.

8.2 *Incentive Arrangements following Admission*

The Directors recognise the need to attract, incentivise and retain employees and, to this end, the Company will continue to grant options intended to qualify as EMI options (on similar terms described in this paragraph 8). In addition, the Company is considering the design of an unapproved employee share scheme for senior management and Directors for adoption following Admission. The terms of such new unapproved scheme have not yet been decided upon.

9. Taxation

9.1 *General*

The following statements are intended to apply only as a general guide to current UK tax law and to the current practice of the UK Inland Revenue. They are intended to apply only to shareholders who are resident in the United Kingdom for UK tax purposes (unless the position of non-resident shareholder is expressly referred to), who hold Ordinary Shares as investments and who are the beneficial owners of the Ordinary Shares. The statements may not apply to certain classes of shareholders such as dealers in securities, collective investment vehicles and insurance companies. Holders of Ordinary Shares who are in any doubt as to their tax position regarding the acquisition, ownership and disposition of the Ordinary Shares or who are subject to tax in a jurisdiction other than the UK should consult their own tax advisers.

9.2 *Dividends*

Under current tax law, the Company will not be required to withhold tax at source from dividend payments it makes.

9.2.1 *Individuals*

An individual shareholder who is resident in the United Kingdom for tax purposes will be liable to income tax in respect of any dividend he receives from the Company. He will, however, be entitled to a tax credit which may be set off against his total income tax liability on the dividend and the liability to income tax will be calculated on the aggregate of the dividend and the tax credit (the "gross dividend") which will be regarded as the top slice of the individual's income. The tax credit will be equal to 10 per cent. of the gross dividend (i.e. the tax credit will be one-ninth of the amount of the dividend).

Generally, a UK resident individual shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to reclaim any part of the tax credit.

A UK resident shareholder who is liable to income tax at the lower or basic rate will be subject to income tax on the dividend at the rate of 10 per cent. of the gross dividend so that the tax credit will satisfy in full such shareholder's liability to income tax on the dividend. A UK resident individual shareholder liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5 per cent.. After taking into account the tax credit, such a shareholder will have to account for additional tax equal to 25 per cent. of the net cash dividend received.

9.2.2 *Companies*

A corporate shareholder resident in the United Kingdom for tax purposes will not normally be subject to corporation tax on any dividend received from the Company.

Such corporate shareholders will not be able to claim repayment of the tax credit attaching to any dividend.

9.2.3 *Pension funds*

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

9.3 *Capital Gains*

A disposal of new Ordinary Shares by a shareholder who is either resident or ordinarily resident in the United Kingdom for tax purposes, or is not UK resident but carries on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment and has used, held or acquired the Ordinary Shares for the purposes of such trade, branch, agency or permanent establishment may, depending on the shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of the taxation of capital gains.

A shareholder who is an individual and who ceases to be resident and ordinarily resident in the United Kingdom for tax purposes for a period of less than five years and who disposes of the Ordinary Shares during that period may also be liable on his return to the United Kingdom to tax on any capital gain realised (subject to any available exemption or relief).

For shareholders within the charge to corporation tax on chargeable gains, indexation allowance should be available to reduce the amount of chargeable gain realised on a disposal of the Ordinary Shares (but not to create or increase a taxable loss). For such shareholders holding 10 per cent. or more of the Company's ordinary share capital, a gain on the sale of the Ordinary Shares may qualify for an exemption from corporation tax on chargeable gains under the Substantial Shareholding Provisions provided certain conditions are met but such shareholders are strongly advised to take specific advice on this.

For shareholders who are subject to capital gains tax, such as individuals, trustees and personal representatives, taper relief (which reduces the percentage of the gain chargeable by reference to how long the Ordinary Shares have been held) may be available to reduce the amount of chargeable gain realised on a disposal of the Ordinary Shares.

A corporate shareholder who is not resident in the UK for tax purposes will not be subject to UK tax on a gain arising on a disposal of the Ordinary Shares unless such shareholder carries on a trade in the UK through a permanent establishment and has used the Ordinary Shares in or for the purposes of the trade or used, held or acquired the Ordinary Shares for the purposes of the permanent establishment.

9.4 *Stamp duty and stamp duty reserve tax*

No liability to stamp duty or stamp duty reserve tax ("SDRT") will arise on the issue by the Company of new Ordinary Shares or on the issue of definitive share certificates in respect of the new Ordinary Shares (unless issued into a clearance system or depositary arrangement, in which case, see below).

The subsequent conveyance or transfer on sale of Ordinary Shares outside the CREST system will generally be subject to ad valorem stamp duty on the instrument of transfer at the rate of 0.5 per cent. of the amount or value of the consideration given rounded up to the nearest £5. An unconditional agreement to transfer Ordinary Shares will also normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration for the Ordinary Shares. However, where within six years of the date of the agreement, an instrument of transfer is executed and duly stamped, the SDRT liability will be cancelled and any SDRT which has been paid will be repaid. Stamp duty and SDRT are normally the liability of the purchaser or transferee of the Ordinary Shares.

Under the CREST system for paperless share transfers, deposits of Ordinary Shares into CREST will not generally be subject to stamp duty or SDRT unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise usually at the rate of 0.5 per cent. of the value of the consideration given. Subsequent paperless transfers of Ordinary Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT from the purchaser of the Ordinary Shares on relevant transactions settled within the system.

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 depositary receipts, stamp duty (in the case of a transfer only to such persons) or SDRT may be payable at a 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 issue price of the Ordinary Shares.

The above statements are intended as a general guide to the current position. Certain categories of person, including market makers, brokers, dealers and persons connected with depositary arrangements and clearance services are not liable to stamp duty or SDRT and others may be liable at a higher rate or may although not primarily liable for tax be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

Any person who is in any doubt as to his tax position or who may be subject to tax in any other jurisdiction should consult his professional tax adviser.

10. Placing Arrangements

10.1 *Placing Agreement*

10.1.1 On 14 July 2004 the Company entered into an agreement with the Directors and Evolution Beeson Gregory, pursuant to which Evolution Beeson Gregory agreed as agent for the Company to use its reasonable endeavours to procure subscribers for the Placing Shares and if and to the extent that it is not able so to procure, itself as principal to subscribe for the Placing Shares, in each case at the Placing Price.

10.1.2 The obligations of Evolution Beeson Gregory under the Placing Agreement are conditional upon, *inter alia*, Admission becoming effective on or before 8.00a.m. on 20 July 2004 (or such later date as Evolution Beeson Gregory and the Company may agree, being not later than 31 August 2004).

10.1.3 In consideration for the services to be provided by Evolution Beeson Gregory in connection with the Placing and its associated transactions, the Company will pay to Evolution Beeson Gregory a corporate finance advisory fee of £125,000 and a commission of an amount equal to 3.5 per cent. of the Placing Price multiplied by the total number of Placing Shares and a further commission of an amount equal to 0.5 per cent. of the Placing Price multiplied by the total number of Placing Shares conditional upon the Placing proceeding at or above the Placing Price and if not, such commission to be paid at the discretion of the Company, and will grant Evolution Beeson Gregory an option (exercisable at any time during the period of two years from the date of Admission) to subscribe for such number of Ordinary Shares at the Placing Price as shall be represented by an aggregate subscription price of £100,000, in each case together with any applicable VAT thereon. The Company will be responsible for all costs and expenses of the Placing.

10.1.4 The Placing Agreement contains various warranties given by the Company and the Directors as to the accuracy of the information contained in this document and as to the Company's business. In addition, the Company has given an indemnity to Evolution Beeson Gregory in respect of certain matters and the Executive Directors have given an indemnity to Evolution Beeson Gregory in relation to tax matters. Evolution Beeson Gregory is entitled to terminate the Placing Agreement in specified circumstances prior to Admission, including in the event of a material breach of the Placing Agreement by the Company or the Directors, or in the event of a material breach of any of the warranties referred to above, or if an event of *force majeure* arises.

10.2 *Lock-in Deeds*

Pursuant to Lock-in Deeds dated 14 July 2004, the Directors, certain other Shareholders and certain persons holding options or warrants over ordinary shares in the capital of Blue Heath Direct Limited (as further described in paragraphs 11.7 and 11.8 of this Part V) have undertaken to Evolution Beeson Gregory, in relation to Ordinary Shares held or to be held by them representing approximately 99 per cent. of the issued share capital of Blue Heath Direct Limited immediately prior to the Share Exchange, for a period of 12 calendar months from Admission, not to dispose of any Ordinary Shares held by them otherwise than with the prior written consent of Evolution Beeson Gregory and subject to orderly marketing provisions, save in limited circumstances. For a further period of 12 calendar months from the first anniversary of Admission, the Directors and certain other shareholders of the Company have undertaken to Evolution Beeson Gregory that they will not dispose of any Ordinary Shares held by them otherwise than through Evolution Beeson Gregory.

10.3 *Nominated Adviser and Broker Agreement*

Pursuant to an agreement dated 14 July 2004 made between the Directors (1), the Company (2) and Evolution Beeson Gregory (3), Evolution Beeson Gregory has agreed to act as nominated adviser and broker to the Company following Admission, as required by the AIM Rules (the "Nominated Adviser and Broker Agreement"). Under the Nominated Adviser and Broker Agreement, Evolution Beeson Gregory shall provide, *inter alia*, information to the market and such advice and guidance to the directors as to their responsibilities and obligations to ensure compliance by the Company on an ongoing basis with the AIM Rules as the directors or the Company may require from time to time. As broker, Evolution Beeson Gregory has agreed when requested, to co-ordinate transactions in the Company's shares by its directors, employees and other third parties specified by the Company with a view to maintaining an orderly market in the Company's shares, to prepare analysts' reports on the Company and to use its best endeavours to find matching business if there is no registered market-maker in the Company's shares. The Nominated Adviser and Broker Agreement has an initial term of 12 months from the date hereof and is thereafter terminable upon not less than 1 month's notice to be given by Evolution Beeson Gregory or the Company to the other, such notice to expire at any time after the expiry of the initial term. Evolution Beeson Gregory is entitled to be paid an annual fee of £50,000. The agreement contains provisions for early termination in certain circumstances. The Company has given an indemnity to Evolution Beeson Gregory in relation to the provision by Evolution Beeson Gregory of its services under the agreement.

11. Material contracts

In addition to the Placing Agreement and the Nominated Adviser and Broker Agreement, details of which are set out in paragraphs 10.1 and 10.3 above, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries within the period of two years immediately preceding the date of this document and are, or may be, material:

11.1 *Share Exchange Agreement*

A share exchange agreement dated 12 July 2004 between Blue Heath Direct Limited, the holders of the entire issued share capital of Blue Heath Direct Limited and the Company (the "Share Exchange Agreement"). Pursuant to the terms of the Share Exchange Agreement, the Company acquired the entire issued share capital of Blue Heath Direct Limited in consideration for the issue of Ordinary Shares to the then shareholders of Blue Heath Direct Limited, such that the issued share capital of the Company immediately subsequent to the share exchange replicated (by reference to the number of shares held by each shareholder) the issued share capital of Blue Heath Direct Limited immediately prior to the Share Exchange.

11.2 *Shareholders' Agreement*

A shareholders' agreement was entered into between Blue Heath Direct Limited, Peder Smedvig AS, Douglas Gurr, Christopher Philp, Colin Smith, Noel Mathews, Philip Smith and Ian Fraser (the "Existing Shareholders") and RIT, Smith & Williamson Nominees Limited (on behalf of Tom Chandos), Northbridge Management Limited (on behalf of Barclays Nominees HASO account) and Great Northern Investment Holdings Limited (the "Second Round Investors") dated 16 August 2002 (the "Shareholders' Agreement"). The Shareholders' Agreement terminated an investment agreement dated 17 January 2001 (the

"Investment Agreement") between Blue Heath Direct Limited and certain of its shareholders, save in relation to certain rights to claim in respect of warranties thereunder, now suspended and to be terminated as disclosed in paragraph 11.3 of this Part V.

The Shareholders' Agreement contains pre-emption rights which provide that any shares in Blue Heath Direct Limited which are to be transferred are to be offered to the other shareholders of Blue Heath Direct Limited prior to a sale. The agreement also contains tag-along rights which provide, following the exercise of the pre-emption rights, that ordinary shares in Blue Heath Direct Limited may be transferred to a new purchaser, provided that at the same time the new purchaser purchases an agreed amount of ordinary shares from existing shareholders on no less favourable terms. The agreement also contains drag-along rights which provide that shareholders can be compelled to sell their shares to an offeror under certain circumstances.

Blue Heath Direct Limited has entered into deeds of adherence to the Shareholders' Agreement with Fresh Capital Group PLC, JPMIB Nominees Limited and Andrew Knight dated 6 December 2002, 11 December 2002 and 5 December 2002 respectively.

11.3 *Deed of Suspension and Termination of the Shareholders' Agreement*

The parties to the Shareholders' Agreement have entered into a deed of suspension and termination dated 12 July 2004 2004 (the "Deed"). The parties to the Deed have agreed to suspend the Shareholders' Agreement pending Admission and to terminate the Shareholders' Agreement in its entirety upon Admission, whereupon each of the parties to the Shareholders' Agreement are wholly released from all of their rights and obligations thereunder. Under the terms of this Deed, any right in respect of the ability to make claims for breach of warranties (as contained in the Investment Agreement) against the Company is suspended pending Admission and will be terminated on Admission.

11.4 *Deed of Release*

On 12 July 2004, Blue Heath Direct Limited, Douglas Gurr and Christopher Philp (together, the "Warrantors") entered into agreements with Andrew Knight, RIT Capital Partners PLC, Smith & Williamson Nominess Limited, Northbridge Management Limited, Great Northern Investment Holdings Limited, Fresh Capital Group Limited, Rose Nominees Limited and Chase Nominees Limited whereby the Warrantors were released from any liability remaining in relation to any relevant claims under warranties contained in subscription agreements entered into by the Warrantors and these parties.

11.5 *Bridge Loan Facility*

Blue Heath Direct Limited has entered into a bridge loan facility of £2 million dated 26 March 2004 with Peder Smedvig Capital Limited (as "Security Trustee") and certain lenders including, RIT Capital Partners PLC, Fresh Capital Group PLC and Equity Partnership Investment Company PLC (the "Lenders") (the "Bridge Loan"). The Bridge Loan is to provide working capital for Blue Heath Direct Limited and to meet its obligations in relation to certain loan notes previously issued by Blue Heath Direct Limited. As at the date of this document £1.5 million has been drawn down under the Bridge Loan to date. The Bridge Loan will be repaid out of funds arising from the issued Placing of the Placing Shares.

11.6 *20 per cent. Secured Convertible Loan Notes 2005*

Blue Heath Direct Limited has issued £6,229,117 of the £6,614,117 20 per cent. Secured Convertible Loan Notes due 2005 (the "Loan Notes") in three tranches, in April 2003, August 2003 and in November 2003 pursuant to an instrument dated 30 April 2003 as subsequently amended on 22 August 2003, 14 November 2003 and 12 July 2004.

By a written resolution of the holders of the Loan Notes (the "Noteholders") dated 12 July 2004, the Noteholders resolved to amend the terms of the Loan Notes so that the Loan Notes convert into ordinary shares of Blue Heath Direct Limited as opposed to Series B 6 per cent. convertible redeemable preference shares of Blue Heath Direct Limited. The Noteholders each delivered a notice of conversion dated 13 July 2004 to Blue Heath Direct Limited requiring their holding of Loan Notes to be converted into such ordinary shares, conditional on Admission ("Conversion"). Upon Conversion, pursuant to article 9 of the articles of association of Blue Heath Direct Limited (adopted by special resolution passed on 12 July 2004) the ordinary shares in Blue Heath Direct Limited issued through the Conversion will be automatically transferred to the Company in exchange for one new Ordinary Share for each ordinary share in Blue Heath Direct Limited issued as a result of the Conversion.

11.7 *Investor options*

The following investor options over shares in Blue Heath Direct Limited have been granted to Peder Smedvig Capital A.S ("Smedvig"), RIT Capital Partners Plc ("RIT"), Fresh Capital Group Limited ("Fresh"), and JPMIB Nominees Limited ("JPMIB"):

Smedvig

Smedvig was originally granted 5,211 options under two separate agreements. An agreement dated 21 December 2001, amended and restated on 15 August 2002 ("2002 Smedvig options") and an agreement dated 21 March 2003 ("2003 Smedvig options") the exercise price is 80.475p and £1 per share under each of these agreements.

The 2002 Smedvig options were granted in respect of 4,536 ordinary shares in Blue Heath Direct Limited with an exercise price of £321.90 per share and are exercisable until 20 April 2007. These options carry anti-dilution rights in the event of any variation in the share capital of Blue Heath Direct Limited or a rights or other share issue.

The 2003 Smedvig options were granted over a number of ordinary shares in Blue Heath Direct Limited at an exercise price of £479.75 per share to a value of approximately £270,000. These options carry anti-dilution rights in the event of any variation in the share capital of Blue Heath Direct Limited or a rights or other share issue, but there is no express provision for a "rollover" in the event of a change of control of Blue Heath Direct Limited. The 2003 Smedvig options are already exercisable and will continue to be until 21 March 2008. Further to the Bonus Issue, in accordance with the terms of the 2002 Smedvig options and 2003 Smedvig options, Smedvig now has an option over 2,084,400 ordinary shares in Blue Heath Direct Limited. When exercised in accordance with the articles of Blue Heath Direct Limited, these shares will be exchanged for 2,084,400 Ordinary Shares as described in paragraph 2.3 of this Part V.

RIT

RIT was originally granted options over a number of ordinary shares in the Company on 21 March 2003 at an exercise price of £479.75 per share to a value of approximately £240,000. These options carry anti-dilution rights in the event of any variation in the share capital of Blue Heath Direct Limited or a rights or other share issue, but there is no express provision for a "rollover" in the event of a change of control of Blue Heath Direct Limited. The options are already exercisable and will continue to be until 21 March 2008. Further to the Bonus Issue, in accordance with the terms of the option, RIT now has an option over 240,000 ordinary shares in Blue Heath Direct Limited at an exercise price of £1. When exercised in accordance with the articles of Blue Heath Direct Limited, these shares will be exchanged for 240,000 Ordinary Shares as described in paragraph 2.3 of this Part V.

Fresh

Fresh was originally granted options over a number of ordinary shares in the Company on 21 March 2003 at an exercise price of £479.75 per share to a value of approximately £50,000. These options carry anti-dilution rights in the event of any variation in the share capital of Blue Heath Direct Limited or a rights or other share issue, but there is no express provision for a "rollover" in the event of a change of control of Blue Heath Direct Limited. The options are already exercisable and will continue to be until 21 March 2008. Further to the Bonus Issue, in accordance with the terms of the options, Fresh now has an option over 50,000 ordinary shares, in Blue Heath Direct Limited at an exercise price of £1. When exercised in accordance with the articles of Blue Heath Direct Limited, these shares will be exchanged for 50,000 Ordinary Shares as described in paragraph 2.3 of this Part V.

JPMIB

JPMIB was originally granted options over a number of ordinary shares in the Company on 21 March 2003 at an exercise price of £479.75 per share to a value of approximately £40,000. These options carry anti-dilution rights in the event of any variation in the share capital of Blue Heath Direct Limited or a rights or other share issue, but there is no express provision for a "rollover" in the event of a change of control of Blue Heath Direct Limited. The options are already exercisable and will continue to be until 21 March 2008. Further to the Bonus Issue, in accordance with the terms of the options, JPMIB now has an option over 40,000 ordinary shares, in Blue Heath Direct Limited at an exercise price of £1. When exercised in accordance with the articles of Blue Heath Direct Limited, these shares will be exchanged for 40,000 Ordinary Shares as described in paragraph 2.3 of this Part V.

11.8 *Altium Capital Limited ("Altium") Warrant Instrument*

Altium was granted the right to subscribe for 849 ordinary shares in Blue Heath Direct Limited at an exercise price of £479.75 per share under a warrant instrument dated 15 August 2002. As described in paragraph 2.3 of this Part V, Altium and Blue Heath Direct Limited entered into a deed amending the terms of the warrant instrument so that, *inter alia*, Altium now has a right to subscribe for 150,000 ordinary shares in Blue Heath Direct Limited at an exercise price equal to the Placing Price. This exercise must occur within 18 months from Admission, failing which, the right to subscribe for these shares in Blue Heath Direct Limited will lapse. When exercised in accordance with the articles of Blue Heath Direct Limited, these shares will be exchanged for 150,000 Ordinary Shares as described in paragraph 2.3 of this Part V.

11.9 *PricewaterhouseCoopers Engagement*

On 18 February 2004, Blue Heath Direct Limited, Peder Smedvig Capital AS, Douglas Gurr, Christopher Philp and Prospect Investment Management Limited on behalf of RIT Capital Partners PLC engaged PricewaterhouseCoopers LLP ("PWC") to explore commercial or strategic relationships with various potential partners for Blue Heath Direct Limited. A success fee is payable by Blue Heath Direct Limited to PWC if a transaction is completed. The success fee payable by Blue Heath Direct Limited to PWC is dependent on the nature and value of any transaction that is successfully completed but could be as high as £1.26 million in certain circumstances. A retainer fee of £60,000 has already been paid by Blue Heath Direct Limited to PWC. In certain circumstances, of which there are none at the date of this document, a withdrawal fee is payable by Blue Heath Direct Limited to PWC. The maximum withdrawal fee is £60,000.

11.10 *Forum Capital International Engagement*

On 24 February 2004, Blue Heath Direct Limited engaged Forum Capital International Limited ("Forum") to secure improved asset financing to replace the Barclays' Invoice Discounting Agreement. Pursuant to this agreement with Forum, Blue Heath Direct Limited has entered into the Lloyds' Debt Purchase Agreement. Blue Heath Direct Limited have agreed to pay a success fee of approximately £43,000 to Forum following successful conclusion of the engagement.

11.11 *Lloyds' Debt Purchase Agreement*

Blue Heath Direct Limited and Lloyds entered into the Lloyds' Debt Purchase Agreement which commenced on 1 July 2004. Lloyds has agreed to purchase the book debts of Blue Heath Direct Limited in existence on 1 July 2004 and arising from contracts of sale with customers thereafter, for cash, to be calculated by reference to the value of the debts purchased, up to a funding limit of £3.9 million. There is also a revolving stock facility with a funding limit of £100,000. The term of the agreement is 24 months and may be terminated thereafter by either party giving 6 months' written notice to the other to expire at the end of any calendar month. An arrangement fee of £36,000 was paid to Lloyds and a service charge of £36,000 per annum is payable monthly in arrears. The Lloyds' Debt Purchase Agreement will be audited on a bi-monthly basis in the first year and a monitoring fee of £2,000 is payable per audit visit. Blue Heath Direct Limited has indemnified Lloyds against any cost, fees (including legal fees) and expenses incurred in relation to entering into the Debt Purchase Agreement (and related agreements); collecting debts and dealing with debt disputes; and obtaining the release of debts or the waiver of rights from any encumbrancer. Blue Heath Direct Limited has given various warranties and undertakings to Lloyds, including that there is no similar agreement for the sale or charge of the debts to any other party and this warranty is repeated each time that a debt notification schedule is submitted to Lloyds. Blue Heath Direct Limited has agreed to notify Lloyds immediately if it contemplates taking any action which might result in its insolvency or if it is aware of any such action being contemplated by any other party and to disclose details of any change, or contemplated change in the control or ownership of Blue Heath Direct Limited or its business. Blue Heath Direct Limited has indemnified Lloyds against any loss or expense, present or contingent, which may be suffered by Lloyds or money paid as a result of a breach of a warranty or undertaking. Lloyds may terminate the Lloyds' Debt Purchase Agreement immediately in various circumstances, including in the event of (i) Blue Heath Direct Limited becoming insolvent; (ii) breach of the Lloyds' Debt Purchase Agreement; (iii) the death or insolvency of a party providing a guarantee or of their giving notice of termination or amendment of such guarantee, indemnity or security; (iv) a material adverse change in the Blue Heath Direct Limited's financial condition or operating performance; (v) a change in the composition of 50 per cent. or more of the board of directors of Blue Heath Direct Limited or its senior management, or any change in the ownership of 50 per cent. or more of Blue Heath Direct Limited's shares or any change of control, without obtaining prior written consent.

The obligations of Blue Heath Direct Limited under the Lloyds' Debt Purchase Agreement are secured by a first ranking all assets debenture (the "Lloyds' Debenture") dated 1 July 2004, under which Blue Heath Direct Limited granted a fixed and floating charge over all of its assets and undertaking in favour of Lloyds.

Blue Heath Direct Limited entered into the Deed of Priorities which provides that the Lloyds' Debenture ranks first in order of priority over the Barclays' Debenture (as described in paragraph 11.12 below), the security created in relation to the Bridge Loan (as described at paragraph 11.4 above) and the Loan Notes (as described at paragraph 11.5 above).

Simon Mindham and Douglas Gurr have each indemnified Lloyds against all losses, costs, claims and demands which may be suffered by Blue Heath Direct Limited breaching the Lloyds' Debt Purchase Agreement, where that breach arises out of any act of theirs of wilful dishonesty, deceit or deception.

Blue Heath Direct Limited has undertaken to obtain a guarantee from the Company with respect to the debt facilities provided by Lloyds, following a successful Share Exchange (as described in paragraph 2.2.2 above).

11.12 *Barclays' Invoice Discounting Agreement*

Blue Heath Direct Limited entered into the Barclays' Invoice Discounting Agreement, dated 26 November 2001, under which Barclays agreed to purchase the debts due to Blue Heath Direct Limited from debtors. The Barclays Invoice Discounting Agreement has now been replaced by the Lloyds' Debt Purchase Agreement (as described at paragraph 11.11 above). Barclays are in the process of closing the remaining book of debt over the course of the next few weeks.

In relation to the Barclays' Invoice Discounting Agreement, Barclays have a fixed and floating charge over certain of the assets and undertaking of Blue Heath Direct Limited, provided for under a debenture dated 24 September 2001 (the "Barclays' Debenture"). The Barclays' Debenture remains in place to cover the closing of the remaining book of debt. The parties to the Deed of Priorities have agreed that the Barclays' Debenture ranks behind the Lloyds' Debenture (the Lloyds' Debenture and the Deed of Priorities are more fully described in paragraph 11.11 above).

12. Working capital

In the opinion of the Directors having made due and careful enquiry, taking into account the net proceeds from the Placing and bank facilities available to the Group, the working capital available to the Group will be sufficient for the Group's present requirements, that is for at least the next 12 months from the date of Admission.

13. Litigation

So far as the Company is aware, there are no legal or arbitration proceedings, active, pending or threatened against, or being brought by, the Group which are having or may have a significant effect on the Group's financial position.

14. Consents

14.1 *Evolution Beeson Gregory*

Evolution Beeson Gregory Limited of 100 Wood Street, London EC2V 7AN, is a member of the London Stock Exchange plc and is regulated in the UK by the Financial Services Authority. Evolution Beeson Gregory has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which it appears.

14.2 *Deloitte & Touche, LLP*

Deloitte & Touche, LLP of Hill House, 1 Little New Street, London EC4A 3TR, has given and has not withdrawn its written consent to the inclusion of the references to its reports in Part III of this document and to its name, in the form and context in which they appear.

15. General

15.1 *Significant changes*

15.1.1 Save as described in this document, there has been no significant change in the financial or trading position of Blue Heath Direct Limited since 28 February 2004, being the end of the period to which the latest audited accounts of Blue Heath Direct Limited relate.

15.1.2 Save as described in this document, there has been no significant change in the financial or trading position of the Company since 4 June 2004, being its date of incorporation.

15.2 *Payments to promoters*

No person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, within the 12 months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:

(a) fees totalling £10,000 or more;

(b) securities where these have a value of £10,000 or more; or

(c) any other benefit with a value of £10,000 or more at the date of Admission;

save for the contractual relationship entered into between Blue Heath Direct Limited and PricewaterhouseCoopers and Forum Capital International Limited detailed in paragraphs 11.9 and 11.10 above.

15.3 *Net proceeds*

The total costs and expenses relating to the Placing which are payable by the Company, including a placing commission of 3.5 per cent. and 0.5 per cent. to Evolution Beeson Gregory, are estimated to amount to £1.8 million (excluding recoverable VAT) and accordingly the net proceeds which the Company is expected to raise by the Placing (after deduction of expenses excluding the commission payable to Evolution Beeson Gregory) are £16.7 million.

15.4 *Minimum amounts to be raised*

The minimum amounts which, in the opinion of the Directors, need to be raised pursuant to the Placing to provide the sums required in respect of each of the following matters specified in paragraphs 21 (a)(i) to (iv) of Schedule 1 to the POS Regulations, are:

(a)	the purchase price of any property purchased, or to be purchased, which is to be defrayed in whole or in part out of the proceeds of the issue;	£nil
(b)	preliminary expenses payable by the Company and any commission payable to any person in consideration of his agreeing to subscribe for, or of his procuring or agreeing to procure subscriptions for, any shares in the Company;	£740,000
(c)	repayment of any money borrowed by the Company in respect of the foregoing matters; and	£nil
(d)	working capital.	£12,000,000

15.5 *Investments in progress*

The Company has no investments in progress which are or may be significant.

15.6 *Investment decision*

In making any investment decision in respect of the Placing, no information or representation should be relied on in relation to the Placing, the Group or the Ordinary Shares, other than as contained in this document. No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised. Neither the delivery of this document nor any subscription made under it shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct as of any time subsequent to the date of this document.

15.7 *Financial Information*

The financial information set out in Part III of this document does not constitute statutory accounts within the meaning of section 240 of the Act. Deloitte & Touche LLP, chartered accountants and registered auditors, of Leda House, Station Road, Cambridge CB1 2RN, has reported upon the statutory accounts of Blue Heath Direct Limited for the years ended 1 March 2003 and 28 February 2004 and the predecessor firm, Deloitte & Touche, for the year ended 2 March 2002 within the meaning of Section 235 of the Act. Each such report was unqualified within the meaning of section 262(1) of the Act and did not contain a statement under sections 237(2) or (3) of the Act. Statutory accounts of Blue Heath Direct Limited in respect of the years ended 2 March 2002 and 1 March 2001 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act.

16. Availability of this document

Copies of this document are available free of charge from the Company's registered office and at the offices of Evolution Beeson Gregory, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) and will remain available for at least one month after Admission.

18. Documents available for inspection

Copies of the following documents will be available for inspection on any weekday (Saturdays, Sundays and UK public holidays excepted) at the offices of Weil, Gotshal & Manges, One South Place, London EC2M 2WG for a period of 14 days from the date of this document:

18.1 the memorandum and articles of association of the Company;

18.2 the reports by Deloitte & Touche LLP set out in Part III of this document;

18.3 the pro forma share option agreement proposed to be entered into between the current option holders of employee options in Blue Heath Direct Limited and the Company;

18.4 the service agreements and letters of appointment referred to in paragraph 7 of this Part V;

18.5 the material contracts referred to in paragraph 11 of this Part V;

18.6 the letters of consent referred to in sub-paragraph 14.1 and 14.2 of this Part V;

18.7 the audited accounts of Blue Heath Direct Limited for each of the three financial years ended 28 February 2004; and

18.8 this document.

14 July 2004