



**FOR IMMEDIATE RELEASE**

**2 October 2008**

**Eatonfield Group plc ("Eatonfield" or "the Group")  
(AIM:EFD)**

**Proposed substantial property transaction and related party transaction between Eatonfield Developments Limited and Rob Lloyd and his connected party Rob Lloyd Racing Limited, further authority to allot shares for cash whilst dis-applying pre-emption rights for these purposes and proposed amendments to the Articles of Association and Notice of General Meeting.**

The Directors of Eatonfield announce that the Company yesterday sent a Circular to shareholders relating to the above proposed transaction and providing the background to and detail of the proposals as set out below.

The increasingly difficult conditions in the banking and property markets in recent months have been well publicised. As a property company dependent upon bank debt, as well as equity, to finance its projects, Eatonfield has not been immune from the effects of an increasingly harsh operating environment.

On 26 September 2008, the following announcement was made by the Company:

**"Trading update and funding requirement**

The board of Eatonfield announces that due to the very difficult conditions in the property sector, although still substantially profitable, the Group's profit before tax for the year ended 30 June 2008 will be below market expectations. The lower than expected profit before tax anticipates the effect of an impairment review currently being conducted on the Group's trading assets.

Eatonfield has achieved a significant uplift in the valuation of its two key investment property assets. Progress towards obtaining planning permission on the ex Corus Rail site in Workington and Birkwood, Lanarkshire, is going to schedule. Planning applications on both properties are being submitted this month and grant of planning expected to be received by March 2009. The regeneration of the Workington site is a key priority for the local authority and, as with Birkwood, the board is confident of the ultimate success of these projects both for Eatonfield and the local communities.

The Group currently has assets independently valued at approximately £53 million and borrowings totalling approximately £33.5 million, based upon the most recent asset valuations and taking no account of potential uplifts which may arise from planning permissions currently being sought across a number of sites including Corus and Birkwood.

The Group has been in discussions regarding raising further finance against the value of the Corus site. This currently has a loan against it of some £4.2 million representing approximately 32% of the most recent valuation completed as at the 30 June 2008. Eatonfield has been unable to increase the level of borrowings against this asset which has resulted in the Group's current available cash being less than the board had originally anticipated.

Eatonfield has been working with the support of its two main debt providers to secure funding for the Group and agreement has been reached to extend the Group's overdraft facilities for a further 12 months, until September 2009. As part of this agreement, Rob Lloyd, Chief Executive, has increased his personal guarantee of the Group's debt to £1 million and will be paid a fee of £95,000 by the Group.

However, a short term funding requirement remains. Therefore, having explored alternatives and in the absence of any other available source of funding, Eatonfield has agreed terms with Rob Lloyd whereby he will make a loan of £750,000 in return for a profit-sharing arrangement on the Corus and Birkwood sites, the terms of which will be presented to shareholders for their approval prior to becoming effective. The board believes this cash injection will take the Group through to the point where the Corus site can be refinanced with the benefit of planning permission.

The balance of Eatonfield's funding comprises a number of loans secured on individual properties from its six lenders, the majority of which do not mature until after the end of the current financial year.

The board remains wholly focussed on cash generation and is pleased to announce legal completion of the sale of a parcel of land at Greenfield, Holywell on 22 September 2008 for £2 million, producing cash of £520,000 for the Group after repayment of debt.

In recognition of the difficult trading conditions, which the board expects to continue well into 2009, a number of cost reduction initiatives are underway, including the closure of certain leased satellite office facilities, the sale or lease of the Group's freehold head office and a number of redundancies. Measures now being implemented in addition to those already taken will reduce the Group's fixed overheads by approximately £500,000 (or 25%) per annum.

A letter providing details of the proposed loan and profit sharing arrangements and convening an extraordinary general meeting to approve the terms of such will be posted to shareholders in due course."

Since issuing the announcement the terms of the proposals have changed. The matters requiring approval by shareholders of Eatonfield at a General Meeting to be held at the offices of Evolution Securities Limited, at 100 Wood Street, London EC2V 7AN at 12.00 noon on 24 October 2008, are as set out below.

### **The RL Loan Agreement**

By virtue of an agreement with Rob Lloyd and a company connected with Rob Lloyd to borrow £750,000, to be repaid together with all outstanding interest on 1 September 2009, in order to secure funding requirements of the Company and its subsidiaries (the "RL Loan Agreement") and conditional upon your approval as shareholders pursuant to section 190 Companies Act 2006 ("s.190CA06"), the principal operating subsidiary of the Company, Eatonfield Developments Limited ("EDL"), will borrow from Rob Lloyd's company, Rob Lloyd Racing Limited ("RLRL"), £750,000 at an interest rate of 1.25% per calendar month. In addition, EDL will make payment to Rob Lloyd of a £95,000 fee which is payable in respect of personal guarantees of £1million that Rob Lloyd has given to The Royal Bank of Scotland plc at the request of EDL to enable that bank to continue its overdraft facilities to the Company and EDL. By virtue of an agreement dated 5 September 2008 this guarantee fee is payable by 5 September 2009 and as soon as EDL can afford to pay it and conditional upon your approval as shareholders, EDL will pay this guarantee fee to Rob Lloyd now in discharge of that obligation.

Further key elements of the RL Loan Agreement, again conditional upon your approval as shareholders, are:

- a. the commitment to the grant of security to RLRL by way of a second charge over EDL's title to the former Corus site in Workington, Cumbria, behind the first charge granted to the principal lender on that site which is AIB Group (UK) plc, and to grant a third charge to RLRL over EDL's title to the site at Birkwood, Lanarkshire, behind charges already granted in favour of AIB Group (UK) plc and NHS South Lanarkshire; and
- b. a profit-sharing agreement between EDL and RLRL further described below.

## The Profit-Sharing Agreement as part of the RL Loan Agreement

The profit-sharing agreement proposed in the RL Loan Agreement between EDL and RLRL will entitle RLRL to 50% of each £1 of:

- any increase in the value of the Corus site above £6million;
- any increase in the value of the Birkwood site above £2.7million;
- any profit realised by EDL as a result of the profit share agreement dated 1 June 2007 between Modus Paignton Limited and EDL ("Paignton Agreement"); and
- any profit realised by EDL as a result of the profit share agreement dated 30 June 2008 between Jenard Ystalyfera Limited and EDL ("Ystalyfera Agreement"),

but with any and all payments to be made by EDL to RLRL capped at £10million in aggregate.

The increases in value of each of the Corus and Birkwood sites are measured by the actual sale proceeds received by EDL net of all costs and taxes. The most recent independent valuations on these sites, at 30 June 2008, are £13.25 million and £6.1 million respectively on an RICS market value basis. However, given current conditions in the property market there remains significant uncertainty over the value that could be realised from the sale of these sites on a forced sale basis. Any payment of this profit share falls due within 30 business days of receipt by EDL of the entire consideration due upon a sale of one of the Corus or Birkwood sites.

Any payment under the profit sharing agreement proposed in the RL Loan Agreement will be due within 30 Business Days of receipt by EDL of the entire consideration due upon a sale of one of the Corus or Birkwood sites, or profit due under a profit realisation provided always that:

(a) if there is a sale of only one of the Corus or Birkwood sites, this shall not entitle the RLRL to any payment in relation to the other site until there has been a receipt of the entire consideration due upon a sale of the other site; and

(b) if there is a profit realisation under either of the Paignton Agreement or the Ystalyfera Agreement, this shall not entitle the Lender to any payment in relation to the other profit share agreement until profit has been realised by EDL from that profit share agreement.

In addition EDL entered into an agreement on 1 June 2007, as varied by an agreement dated 13 June 2008, with Modus Cardigan Limited ("Modus") to acquire 50% of the Modus interest in a site in Cardigan and to jointly develop that site with Modus bearing half of all costs expended ("the Cardigan Contract"). The Cardigan Contract is due to be completed on 1 March 2009. It will cost EDL £75,000 to complete the Cardigan Contract and unknown further expenditure to address the planning process but which could require EDL to expend, in the opinion of the Directors, up to £200,000 over the next 18 months or more before EDL may be able to realise its investment. Accordingly, EDL has agreed with RLRL that RLRL will take over EDL's liabilities under the Cardigan Contract for £1, conditional upon your approval as shareholders, to reduce EDL's likely funding requirements and its exposure.

The profit-sharing arrangement described above, together with the interest payable, the guarantee fee and the assignment of the Cardigan Contract when taken together, amount to a substantial property transaction for the purpose of s.190CA06 and can only be given effect with the approval of the shareholders voting in General Meeting. This requires a simple majority of shareholders voting on a show of hands or on a poll at a General Meeting convened for this purpose.

The Company has taken extensive steps, with the assistance of various advisors, to attempt to secure funding of at least £750,000 from other third party sources on terms which are more favourable to the Company than those offered under the RL Loan Agreement. It has not proven possible to secure equivalent or better funding terms from any third parties. The other Directors of the Company recognise and appreciate the extraordinary steps being made by

Rob Lloyd both in terms of advancing personal guarantees to the Company's bankers and in terms of arranging further lending to the Company through RLRL of £750,000 upon the terms proposed and, having carefully considered the same, the Board of Directors (excluding Rob Lloyd who has disclosed his interests in the transaction) now recommends to 5 shareholders that they should vote in favour of these proposals to enable the borrowings to be made and the RL Loan Agreement to be completed in accordance with its terms. The Directors believe that if the proposed loan does not proceed and the Company does not receive alternative funding on equivalent or better terms, the Company will face an uncertain future and may be unable to continue to trade.

Copies of the RL Loan Agreement and the other agreements referred to therein will be made available to all shareholders who express an interest in studying the same, or a copy is otherwise available for inspection by shareholders at the Company's registered office and will be available for inspection at the venue for the General Meeting until the commencement of that meeting. All enquiries in this regard should be addressed to Howard Jones as Company Secretary, at the registered office of the Company as set out above.

### **Power to allot shares for cash**

In the event that shareholders do not approve the transaction proposed, enabling the RL Loan Agreement to be completed, the future of the Company and its subsidiaries ("Group") could be uncertain and the Directors believe that the Group may be unable to continue to trade. In order to protect the interests of all stakeholders in the Group, the Directors would wish to be able to proceed quickly with a placing of shares in the Company to raise further cash to secure the Group's funding position. This may or may not prove possible in the current economic climate but would be likely to require an increase in both the authority to allot shares for cash and the authority to dis-apply pre-emption rights for these purposes. The increase in authority now proposed enables all remaining 6,935,225 authorised but unissued shares in the Company to be allotted for cash and all pre-emption right otherwise attaching thereto to be disapplied. There is no current intention to use these powers if the resolutions are passed and if the RL Loan Agreement is completed.

### **Amendments to the Articles of Association**

Finally, the Company is taking the opportunity of the General Meeting to be convened in accordance with the attached notice to introduce some amendments to its Articles of Association. These amendments are required or made desirable by virtue of the entry into force of various further provisions of the Companies Act 2006.

One substantial change proposed here is to enable the Board of Directors and the Company to address conflicts of interest in accordance with the requirements of the Companies Act 2006. A special resolution is to be proposed at the General Meeting to amend the Company's Articles of Association for these purposes.

### **Recommendation**

**Having consulted with Evolution Securities Limited as nominated adviser, your Directors (excluding for these purposes Rob Lloyd who has declared his interests in the transaction) consider that the terms of the transaction are fair and reasonable insofar as Eatonfield's shareholders are concerned, and recommend that you vote in favour of each of the resolutions. All the Directors (including Rob Lloyd) intend to vote in favour of the resolutions in respect of both their own shareholdings and of the shareholdings of their respective connected parties which in aggregate amount to 11,440,000 ordinary shares, or 49.6% of the entire issued share capital of the Company.**

**For further information, please contact:**

**Eatonfield Group plc**

Rob Lloyd, Chief Executive

01352 757008

Evolution Securities  
Joanne Lake

0113 243 1619

**Buchanan Communications**  
Nicola Cronk

020 7466 5000