

CREATIVE ADVANTAGE FUND – INVESTMENT GUIDELINES

These guidelines are to assist intermediaries, accountants, banks, business advisors and potential applicants in understanding the type of companies in which CAF is seeking to invest. These are not rules and should there be any doubt we would recommend contacting the Fund for a discussion.

The Fund invests in:-

Businesses in the creative industries (defined as those activities which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property), focusing on those seeking to take advantage of digital technology to achieve growth.

This definition is deliberately broad and encompasses a wide range of possibilities.

Size and form of investments:

Investments will be in the range £75,000 to £150,000. Lower sums might be available but it is unlikely that the Fund will exceed its maximum. Investments will be in the form of equity investments for redeemable ordinary shares. The Fund does have the power to make loans as well, if appropriate.

Profile of Prospective Companies:

The Fund is seeking companies limited by shares. It is likely that they will have been trading for at least a year and will be generating cash already, although they may not have reached profitability yet. (The Fund is not interested in funding concept development or stand alone projects.) They will have sound financial management arrangements that will include monthly management accounts and reporting systems. The principal(s) will be full time and employed by the company.

Prospective investees must submit a business plan detailing the growth and expansion of the company and how the investment would be used. The business plan will need to incorporate 3 years' financial projections, cash flow, profit & loss, and balance sheet, and include sensitivity analyses. Accounts for previous years trading (if any) must also be available. The business plan should also indicate an exit strategy and how and when the Fund is likely to get its return on investment.

It is unlikely that the Fund will invest in home-based businesses. The Fund would like to see applicants raising further capital elsewhere, whether from their own resources, from other investors or through bank loans.

The Deal:

Every deal is different so it is difficult to be specific on the shape of a deal. The Fund will seek a percentage share in the company. The size of the share is likely to range from 15% up to 49% depending principally on risk and

company valuation. Investments may be staged over a period of time. The release of tranches of investment will be dependent on the investee company reaching prior agreed milestones.

The Fund has a standard investment agreement that restricts company activities potentially affecting the value of the Fund's investment, such as the fixing of executive salaries, asset purchases, leases, loans. However, the Fund has always agreed to vary such restrictions where a sound business case has been made. Investee Companies will be required to report financially on a monthly basis through the Fund's Internet portal.

The Fund reserves the right to appoint a non-executive director to the Board of investee companies. The NED is there to assist the Company in its growth.

Fees and charges:

There is a 1% arrangement fee charged on the day of signing the Investment agreement. There is a monthly monitoring fee that ranges from £300-£500 depending on the size of investment.

The Process:

Applications can be made through our portal: www.creativeadvantagefund.co.uk. Once an application has been made, an investment manager will contact the prospective company or its advisor. The Investment manager will assess the business plan. If we do not wish to proceed applicants will be advised of this immediately. We reserve the right not to give reasons for a refusal, but normally we would advise applicants why their application is being rejected.

If we decide that the company is ready for investment, we will meet with them as soon as possible to discuss the proposition. The company's financial plans are assessed. Its management will then be invited to present to the CAF Board. If the Board wishes to proceed, an offer will be made to the company. If the offer is accepted, there follows a period of drafting investment agreements and further due diligence. While the Fund makes every effort to be as quick as possible, this process can take 4 -12 weeks and depends on the complexity of the deal.

For further information or if you are unsure of as to whether a company would be eligible for investment please contact CAF:

- by e-mail at enquiries@creativeadvantagefund.co.uk, or

- by telephone on: +44 (0) 7969 14 1974.