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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document and the action you should take you are recommended immediately to seek your own advice from a person duly authorised under the Financial Services and Markets Act 2000 who specialises in the acquisition of shares and other securities.**

The Directors of Qconnectis plc, whose names appear on page 4 of this document, accept responsibility both individually and collectively for the information contained in this document. To the best of the knowledge of the Directors, the information contained in this document is in accordance with the facts and makes no omission likely to affect the import of such information.

Application has been made for the admission of the entire issued and to be issued ordinary share capital of the Company to trading on the AIM Market of London Stock Exchange plc ("AIM"). It is expected that dealings in the Ordinary Shares will commence on AIM on 24 February 2005.

The Company's ordinary shares are currently traded on OFEX. The Company intends to apply for the dealing facility in the existing Ordinary Shares on OFEX to be cancelled with effect from the close of business on 23 February 2005.

The rules of AIM are less demanding than those of the Official List of the UK Listing Authority. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority.

Prospective investors 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. Prospective investors should read the whole text and contents of this document and should be aware that an investment in the Company is speculative and involves a degree of risk. In particular, prospective investors' attention is drawn to the section entitled "Risk Factors" in Part III of this document.

Neither the UK Listing Authority nor London Stock Exchange plc has examined or approved the contents of this document. It is emphasised that no application is being made for admission of these securities to the Official List of the UK Listing Authority. 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.

This document, which comprises a prospectus and an AIM admission document, has been drawn up in accordance with the POS Regulations and the AIM Rules. A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with regulation 4(2) of the POS Regulations.

## **Qconnectis plc**

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 3923150)*

Placing of 66,666,667 Ordinary Shares of 1p at a price of 2.25p per Ordinary Share  
and

Admission to trading on AIM

Nominated Adviser

**Grant Thornton Corporate Finance**

Broker and Financial Adviser

**HB-corporate**

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<b>Ordinary share capital immediately following the Placing</b>				
<i>Number</i>	<i>Authorised</i>		<i>Issued and Fully Paid</i>	
	<i>Nominal Amount</i>		<i>Number</i>	<i>Nominal Amount</i>
221,899,240	£2,218,992	<i>Ordinary Shares of 1p each</i>	157,408,023	1,574,080

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Grant Thornton Corporate Finance, a division of Grant Thornton UK LLP, which is authorised and regulated by the Financial Services Authority, is the Company's nominated adviser for the purposes of the AIM Rules and as such, its responsibilities are owed solely to London Stock Exchange plc and are not owed to the Company or any director or any other entity or person. Grant Thornton Corporate Finance will not be responsible to anyone other than the Company for providing the protection afforded to clients of Grant Thornton Corporate Finance or for advising any other person in connection with the Placing and Admission.

HB-corporate, a trading division of Hoodless Brennan & Partners Plc, which is authorised and regulated by the Financial Services Authority, and which is a member of London Stock Exchange plc is acting as Broker and Financial Adviser to the Company and no one else. HB-corporate will not be responsible to anyone other than the Company for providing the protections afforded to clients of HB-corporate or for providing advice in relation to the Placing and Admission.

The Ordinary Shares have not been, nor will they be, registered under the US Securities Act of 1933 or under any applicable securities laws of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. The Ordinary Shares may not be offered or sold or delivered, directly or indirectly, in or into the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. This document must not be mailed or otherwise distributed or sent to or into the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. This document does not constitute an offer for, or the solicitation of an offer to subscribe for or by, any of the Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

## **FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements. These statements relate to the Group's future prospects, developments and business strategies.

Forward-looking statements are identified by their use of terms and phrases such as "believe", "could", "envisage", "estimate", "intend", "may", "plan", "will" or the negative of those, variations or comparable expressions, including references to assumptions. These statements are primarily contained in Parts I and II of this document.

The forward-looking statements in this document are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements.

Certain risks to and uncertainties of the Group are specifically described in Part III of this document headed "Risk Factors". If one or more of these risks or uncertainties materialises, or if underlying assumptions prove incorrect, the Group's actual results may vary materially from those expected, estimated or projected. Given these risks and uncertainties, potential investors should not place any reliance on forward-looking statements.

These forward-looking statements speak only as at the date of this document. Neither the Directors nor the Company undertake any obligation to update forward-looking statements or risk factors other than as required by the AIM Rules or by the rules of any other securities regulatory authority, whether as a result of new information, future events or otherwise.

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## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Richard Mann Taylor, <i>Non-executive Chairman</i> Michael Anthony Tapia, <i>Chief Executive Officer</i> Percival Charles Antony William Albuquerque, <i>Non-executive Director</i>  <i>all of whose business address is at:</i> Ash House, 8 Second Cross Road, Twickenham, Middlesex TW2 5RF
<b>Company Secretary and Registered Office</b>	Robert Macdonald Watson 85 Elsenham Street London SW18 5NX
<b>Nominated Adviser</b>	Grant Thornton Corporate Finance Grant Thornton House Melton Street Euston Square London NW1 2EP
<b>Broker and Financial Adviser to the Company</b>	HB-corporate 40 Marsh Wall London E14 9TP
<b>Solicitors to the Company</b>	Howard Kennedy 19 Cavendish Square London W1A 2AW
<b>Solicitors to the Placing</b>	Wedlake Bell 52 Bedford Row London WC1R 4LR
<b>Reporting Accountants</b>	Mazars LLP 24 Bevis Marks London EC3A 7NR
<b>Bankers</b>	HSBC Bank plc 2 London Road Twickenham TW1 3RY
<b>Auditors</b>	Mazars LLP Clifton Down House Beaufort Buildings Clifton Bristol BS8 4AN
<b>Registrars</b>	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA

## KEY INFORMATION

THE FOLLOWING INFORMATION SHOULD BE READ IN CONJUNCTION WITH THE FULL TEXT OF THIS DOCUMENT FROM WHICH IT IS DERIVED. SOLE RELIANCE SHOULD NOT BE PLACED ON THE INFORMATION SET OUT BELOW.

1. The business of Qconnectis was established in 1998 and supplies modular telematics technology and IT services to the utility markets which enables them potentially to achieve:
  - significant cost savings through more efficient operation of water and energy utility networks;
  - improved energy conservation and environmental protection; and
  - identification of problems and irregularities in usage of energy and water.

This is achieved by reading utility meters and sensors remotely and by providing data collection and analytical services, via the Internet, to utilities and their customers. The Company also intends to target the environmental market and to this end on 7 February 2005 it announced the launch of a range of environmental solutions offering data monitoring for water and gas leaks, flood alerts and air and water quality.
2. The Group has an experienced management team, a developed product range, patent protected technology and access to established infrastructure.
3. Qconnectis has commenced commercialisation and has won several orders with major utilities and companies both in the UK and overseas.
4. With less than 10 per cent. of the world's estimated 1.3 billion utility meters currently automated, the Directors believe there are significant opportunities to increase sales.
5. The Company is proposing to raise £1.2 million, net of expenses, through the placing of 66,666,667 new Ordinary Shares at 2.25p per share in order to allow more flexibility to grow the business, in particular by expanding the sales and marketing resources of the Company.
6. The Company's shares are presently quoted on OFEX. The Company is applying for the Enlarged Issued Share Capital to be admitted to trading on AIM.
7. The Directors believe that the Placing and move to AIM will allow Qconnectis to:
  - develop the client base at a faster rate;
  - raise its profile and status with existing and potential customers;
  - provide the Company with an acquisition currency in the form of AIM quoted securities;
  - provide suppliers and customers with added confidence;
  - enable the Group to access a wider range of investors; and
  - assist in recruiting, retaining and incentivising key employees.

### **Risk Factors**

Investment in the Company involves a degree of risk and the attention of prospective investors is drawn to the section entitled "Risk Factors" in Part III of this document. Prospective investors should consider carefully whether an investment in the Company is suitable for them in light of their personal circumstances and the financial resources available to them.

## DEFINITIONS

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

“Act”	the Companies Act 1985 (as amended)
“Admission”	the admission of the entire issued share capital of the Company (including the Placing Shares) to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
“AIM”	the AIM market of the London Stock Exchange
“AIM Rules”	the rules relating to AIM published by the London Stock Exchange
“aM&T”	automated monitoring & targeting: Analysing energy consumption and targeting areas of cost saving and conservation
“AMR”	automated meter reading
“C&I”	commercial and industrial customers — refers to the types of typical sites for installation of Qonnectis equipment with private enterprises and government organisations (as opposed to domestic sites)
“Combined Code”	the Principles of Good Governance and the Code of Best Practice included within the Listing Rules of the UKLA
the “Company” or “Qonnectis”	Qonnectis plc
“CREST”	the system of paperless settlement of trades and the holding of uncertificated shares of which CRESTCo Limited is the operator
“Directors” or “Board”	the directors of the Company being Richard M Taylor, Michael Tapia and Percival Albuquerque
“Enlarged Issued Share Capital”	the issued share capital of the Company following the issue of the Placing Shares and Admission
“Grant Thornton Corporate Finance”	the corporate finance division of Grant Thornton UK LLP which is authorised and regulated by the Financial Services Authority to carry on investment business
“Group”	the Company together with its subsidiaries, Web Orator.com Limited, Qonnectis Group Limited, Qonnectis Technologies Limited and Now! Networks Limited, details of which are set out in paragraph 9 of Part V of this document
“HB-corporate”	a trading division of Hoodless Brennan & Partners Plc, which is authorised by the Financial Services Authority to carry on investment business
“London Stock Exchange”	London Stock Exchange plc
“M2M”	machine-to-machine communications, also known as telematics or telemetry
“OFEX”	a market operated by PLUS Markets Group plc
“Options”	options granted or to be granted pursuant to the Share Option Scheme as set out in paragraph 6 of Part V of this document.
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Placing”	the conditional placing of the Placing Shares at the Placing Price
“Placing Agreement”	the conditional agreement between the Company, HB-corporate and the Directors in connection with the Placing, details of which are set out in paragraph 7.5 of Part V of this document
“Placing Price”	2.25 pence per Ordinary Share

<i>“Placing Shares”</i>	66,666,667 Ordinary Shares to be issued and allotted pursuant to the Placing
<i>“POS Regulations”</i>	The Public Offers of Securities Regulations 1995 (as amended)
<i>“Shareholders”</i>	holders of Ordinary Shares
<i>“Share Option Scheme”</i>	the Qconnectis plc Enterprise Management Incentive Scheme 2005, details of which are set out in paragraph 6 of Part V of this document
<i>“UKLA”</i>	the United Kingdom Listing Authority of 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
<i>“UK” or “United Kingdom”</i>	the United Kingdom of Great Britain and Northern Ireland
<i>“US” or “USA” or “United States”</i>	the United States of America (including the States thereof and the District of Columbia), its territories and possessions



## PLACING STATISTICS

Placing Price	2.25p
Number of existing Ordinary Shares	90,741,356
Number of Placing Shares	66,666,667
Number of Ordinary Shares at Admission	157,408,023
Placing Shares as a percentage of Enlarged Issued Share Capital on Admission	42.4 per cent.
Market Capitalisation of the Company following Admission at the Placing Price	£3.5 million
Gross proceeds of the Placing	£1.5 million
Net proceeds of the Placing (after expenses)	£1.2 million

## EXPECTED TIMETABLE

Delisting from OFEX becomes effective	Close of business on 23 February 2005
Admission effective and dealings expected to commence on AIM	24 February 2005
CREST accounts credited	24 February 2005
Despatch of definitive certificates for new Ordinary Shares	3 March 2005

## PART I

### INFORMATION ABOUT THE GROUP

#### 1. Introduction

Qconnectis plc (“Qconnectis”) supplies telematics technology and IT services to the utilities markets. These products and services enable customers potentially to achieve:

- significant cost savings through more efficient operation of utility networks;
- improved energy conservation and environmental protection; and
- the ability to identify both problems and irregularities in the usage of energy and water.

This is achieved by remotely reading utility meters and providing data collection and analytical services, via the Internet and public networks such as GSM, to both utilities and/or their customers.

Qconnectis’ technology enables utilities and their customers to access data from their utility meters from any location at any time of the day or night, eliminating the costly and time-consuming process of manual meter reading and back-office data entry. The Company’s systems can also remote read and collect data from utility meters at 15 minute intervals, allowing users to monitor consumption levels and identify incidences of inefficient usage, billing irregularities or leakage, thereby reducing consumption of resources.

In essence, Qconnectis connects its customers to their remote utility meters and sensors by the use of M2M (machine to machine) technology for AMR (automated meter reading). Qconnectis then aggregates and analyses this remote data, providing the end-user with customised websites and analytical services.

The Company is providing services to the utilities’ commercial and industrial customers (“C&I”), which generate the bulk of utility companies’ revenues, where meters are read more frequently than domestic meters, and where it is expected that utilities will focus their initial investment in AMR technology.

The Directors believe that the optimum form of remote machine communications is to use the plethora of public networks rather than build bespoke networks. Similarly, Qconnectis is focused on fully remote two-way communications, rather than the older walk-by and drive-by radio systems. Communications therefore take place over public wide area networks (WANs) using GSM (digital mobile telephony), hardwire telephone, satellite or broadband Internet connections. Customer data is collected, managed and stored in a database that is accessed by the client via the Internet.

#### *Business development strategy*

Selling directly and through business partners, Qconnectis’ focus is on the provision of outsourced managed services — its main offering is currently a five-year service agreement to provide its proprietary communications hardware and operate the data communications, data storage and Internet presentation on behalf of the customer via its automated data centre.

Qconnectis has already won several initial orders. In late 2003, it secured its first order for Macao Water, a division of Suez Environment. In 2004 it received orders from Générale des Eaux Lyon, Scottish Water, Cambridge Water and the National Health Service. In total, Qconnectis currently provides services to eight utilities in the UK and overseas, six corporate clients including First Group and four public sector organisations including Royal Air Force and Leeds City Council.

#### *Intellectual property*

On 26 October 2004, Qconnectis announced that it had been awarded a patent covering its Internet-based communication system. This embraces the whole of Qconnectis’ system, from its specialist communication devices connected to remote machines for automated meter reading to its central servers.

#### *Competition*

The Directors believe that the Company currently faces competition, predominantly from traditional technologies. Most meters are still read manually, although handheld computers are often used to input data read in this way. Data loggers are another type of device designed to make manual meter reading more effective. These data storage devices collect readings from a meter and this data can be downloaded onto a handheld device or transmitted via a GSM network. Where automated meter reading exists, it is typically of the “walk-by” or “drive-by” type, where a human meter reader equipped with a radio-enabled device walks or drives past a property and captures its meter read from outside.

The Directors are not aware of any organisation that currently offers a combination of products and services such as those of the Company.

Further information on the Company's technology, markets and competition are set out in Part II of this document.

## **2. History of the Group**

The original operating entity, Now! Networks Limited, was founded in 1998 by the Company's Chief Executive Officer, Michael Tapia. Michael had previously founded Talisman Systems Limited for Thames Water in 1994; under his leadership, it became the European market leader in walk-by automated meter reading ("AMR"). In 1997, it was acquired by Severn Trent Utilities, its largest customer. Michael Tapia has since developed the Qconnectis approach to using remote machine-to-machine ("M2M") communications technology to maximise utility efficiency.

In April 2003, Qconnectis Group Limited (then the parent company of Now! Networks Limited) was acquired by the Company, then known as IP Holdings plc, which changed its name to Qconnectis plc to reflect the fact that the Qconnectis business accounted for the majority of the Group's activities.

## **3. Financial information**

The financial information on the Group set out in the Accountants' Report in Part IV of this document includes the results of Qconnectis Group Limited since 17 April 2003, the effective date of its acquisition. In the nine months ended 30 June 2004, the Group made a loss of £596,203 on turnover of £25,128.

## **4. Current trading and prospects**

Since 30 June 2004, the Directors have continued to be encouraged by what they perceive to be an increasing level of interest shown by utilities and C&I companies in Qconnectis' technology and services. In September 2004, the first live order was received from a large commercial and industrial ("C&I") user, the Gwent NHS Trust. This order followed extensive trials of the technology. Further trials are in progress with a number of potential clients in the UK and overseas. The Directors believe that the Company is in a position to generate a significant increase in sales and margins through customers rolling out existing contracts and through securing new contracts.

## **5. The Placing and Admission**

On behalf of the Company, HB-corporate has, under the terms of the Placing Agreement, conditionally placed with institutional and other investors a total of 66,666,667 new Ordinary Shares at the Placing Price, to raise a total of £1.5 million before expenses.

Further details of the terms of the Placing Agreement are set out in paragraph 7 of Part V of this document. The Placing Shares will rank *pari passu* with the existing Ordinary Shares including the rights to all dividends and other distributions declared paid or made after the date of issue.

On Admission, the Company will have 157,408,023 Ordinary Shares in issue and a market capitalisation of approximately £3.5 million at the Placing Price.

## **6. Reasons for Admission and use of proceeds**

The Company is seeking admission to AIM at a time when increasing energy prices, ageing utility infrastructure, environmental considerations and commercial cost pressures are thought by the Directors to be driving the demand for products and services such as those offered by Qconnectis. With less than 10 per cent. of the world's estimated 1.3 billion utility meters currently automated, the Directors believe there are significant opportunities to increase sales for the Group.

The Ordinary Shares are presently quoted on OFEX. However the Directors believe that AIM is a market more appropriate for the Company's intended size and scale of operations and is undertaking a placing of new shares in connection with its proposed admission to AIM in order to provide working capital to enable it to build on its momentum and to secure and fund new contracts.

The net proceeds of the Placing receivable by the Company after expenses will be approximately £1.2 million. Of this amount, approximately £120,000 will be used to repay borrowings and the balance will be used for the working capital needs of the Group and to achieve the following objectives:

- assist its existing customers to roll out the Company's technology and services;
- increase its contract customer base;
- successfully roll out the environmental monitoring solution as announced on 7 February 2005; and
- launch the next generation of the current hardware in Q2 2005.

In addition to the fundraising being implemented through the Placing, the reasons for Admission include the following:

- to provide the Group with more flexibility for further growth, particularly by expanding sales and marketing resource and activities;
- to raise the Group's general profile within its sector and its status with its customers;
- to provide the Company with an acquisition currency in the form of AIM quoted securities which may be used to finance in whole or in part its expansion plans;
- to provide suppliers and customers with added confidence;
- to enable the Group to access a wider range of investors; and
- to assist in recruiting, retaining and incentivising key employees.

## **7. Lock-In Arrangements**

Each of the Directors, together with the Company's applicable employees and related parties (as such terms are defined in the AIM Rules), has agreed with HB-corporate and the Company that they will not (except in the limited circumstances permitted by the AIM Rules including in the event of an intervening court order, the death of a director, or in respect of the acceptance of a takeover offer which is open to all shareholders) dispose of any Ordinary Shares in which they or any connected person are interested until the date which falls 12 months after the date of Admission and that for a further period of 12 months thereafter, they will not sell or dispose of any of their Ordinary Shares except through the Company's broker from time to time.

## **8. Directors and Key Employees**

The Directors of the Company are as follows:

*Richard Mann Taylor*, aged 57, non-executive Chairman joined the board of Qconnectis Group Limited in May 2000. He has worked for a number of leading international companies such as GEC, Grand Metropolitan, Jardine Matheson in Hong Kong and American President Companies in the USA. In 1988, he was a founder member of a group which acquired Harry Ramsden's, the fish and chip restaurant company in Guiseley, Yorkshire. As Group Finance Director and Chief Executive of its International Division, he took Harry Ramsden's public in 1989 and sold it to Granada plc in 1999 as a globally branded business with outlets throughout the UK and in six international markets. He has a B.Sc. in Engineering and an MBA from the London Business School.

*Michael Tapia*, aged 38, founder and Chief Executive. He had previously founded Talisman Systems for Thames Water and which he took to leadership in the European utility metering market. Talisman was acquired by its largest customer, Severn Trent plc, in 1997. At Qconnectis he developed from concept a patented architecture for communicating with machines and sensors via the Internet. He previously held business and product development roles with FW Talbot, then a subsidiary of Thames Water plc and supplier of infrastructure products to the utility industry, Acorn Computer, a UK IT pioneer, Informática El Corte Inglés, a leading Spanish IT supplier and Thomson-CSF in France (since renamed Thales), a supplier of advanced electronics to the defence industry. He has an MBA and a BA in Economics.

*Percival Albuquerque*, aged 42, non-executive Director, joined the board of the Company in May 2004 having assisted in the development of its national and international business strategy. He was previously the Managing Director of Radix Micro Devices plc and Vice President of Radix Corporation (USA), a company specialising in mobile computing systems for utility meter reading. He was responsible for the expansion of Radix's sales channels in over 50 countries, development and launch of several innovative mobile computing products and operational management. He is also currently proprietor of PA Associates (UK) Limited, a privately owned business development consultancy.

The Company also employs, or procures the services of, the following key personnel:

*Fee Ching Rees*, ACA, aged 47, is made available to the Company by Pridie Brewster, a firm of Chartered Accountants, in order to fulfil the role of Group Financial Controller. Fee Ching Rees is a qualified Chartered Accountant. From 1980 she worked for Pridie Brewster and later served as a manager with Finnie & Co (now part of BDO Stoy Hayward) prior to re-joining Pridie Brewster.

*Stephen Francis*, aged 34, Customer Support & Quality Manager, has had a number of roles in commissioning and supporting complex industrial controls and communications systems, in particular through spells with Schlumberger Industries, ICI, Ingersoll-Rand and Endress & Hauser. At Schlumberger he was responsible for a number of projects related to utility metering technologies and services, including provision of an independent utility meter auditing service to the UK electricity industry.

*Michael Kivell*, aged 42, Product Development Manager, was previously LM Ericsson's head of new product testing and approvals at its UK development centre and Technical Manager at Talisman Systems, where he worked with Michael Tapia in the development and support of Talisman's products. Within the Group, he is responsible for product development, testing and supplier management

The Company intends to strengthen the Board and management of the Group as it grows and develops. The Directors anticipate appointing a further executive Director during the first year following Admission.

## **9. Share Options**

The Directors believe that the Group's success is highly dependent on the quality of its employees. To assist in the recruitment, retention and motivation of high quality key employees the Group must have an effective remuneration strategy. The Directors consider that an important part of the remuneration strategy will be the ability to award equity incentives and in particular share options to key employees. Consequently, the Directors have established the Share Option Scheme for the benefit of the management and staff of the Group following Admission and have pursuant thereto granted Options conditional upon Admission.

## **10. Dividend policy**

The Board intends to commence the payment of dividends when it becomes commercially prudent to do so and to pursue a progressive dividend policy in line with earnings growth, subject to the availability of distributable profits whilst retaining sufficient income for the Group's projected working capital requirements.

## **11. Corporate Governance**

The Directors recognise the value of the Combined Code. Following Admission the Company intends to comply with the Combined Code so far as is practicable and appropriate for a public company of its size and nature. The Company also proposes to follow the Guidance for Smaller Quoted Companies on the Combined Code issued by the Quoted Companies Alliance in August 2004. The Board has established a remuneration committee and an audit committee, each with delegated duties and responsibilities.

The Remuneration Committee, currently consisting of the Chairman and Percival Albuquerque will review the performance of the executive Directors and determine the remuneration of the executive Directors and the basis of their service agreements with due regard to the Combined Code. The Remuneration Committee will also determine the payment of any bonuses to executive Directors and the grant of options to employees, including executive Directors.

The Audit Committee, currently consisting of the Group Financial Controller and the Chairman, will be responsible for ensuring that the financial performance, position and prospects of the Company are properly monitored, controlled and reported on and for meeting the auditors and reviewing their reports relating to accounts and internal controls.

The Company has adopted and will operate a share dealing code for directors and senior employees on the same terms as the Model Code appended to the Listing Rules of the UKLA.

## **12. Taxation**

General information regarding UK taxation in relation to the Placing and Admission is set out in paragraph 10 of Part V of this document.

The Company has received provisional tax clearance confirming that it will qualify for the taxation advantages offered under the Enterprise Investment Scheme. The proposed issue of Ordinary Shares should also represent qualifying holdings, as described in Schedule 28B ICTA 1988, for a Venture Capital Trust.

**A potential investor should obtain advice from his or her own investment or taxation adviser before applying for Ordinary Shares.**

### **13. CREST**

The Company's Articles of Association permit it to issue shares in uncertificated form in accordance with the Uncertificated Securities Regulations 2001. CREST is a computerised share transfer and settlement system. The system allows shares and other securities to be held in electronic form rather than paper form, although a shareholder can continue dealing based on share certificates and stock transfer forms.

The Company has applied for the Placing Shares to be enabled through CREST with effect from Admission. Accordingly, settlement of transactions in 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.

Pending the despatch of definitive share certificates (as applicable), instruments of transfer will be certified against the register of members of the Company.

## PART II

### INFORMATION ABOUT THE QONNECTIS MARKETS AND TECHNOLOGY

#### Introduction

The machine to machine (“M2M”) market, often called the telematics or telemetry market, refers to remote communications to and from machines such as utility meters, vehicles, sensors and vending machines. Qconnectis is focused on applying its M2M technologies and services to the utility and environmental market, including commercial and industrial consumers. The overall M2M market is predicted to be on the cusp of rapid growth. For example, Forrester Research predicts there will be more machines than people connected to the Internet starting in 2005. The FocalPoint Group forecasts that by 2008, M2M will become a \$180 billion-a-year business — including hardware, software, and services — compared to the \$34 billion market it is today and Gartner predicts there will be 100 to 160 million worldwide M2M connections using wireless mobile phone networks by 2007. Wireless Data Research predicts a 27 per cent. compound annual growth rate for M2M through 2008 and ABI Research estimates an annual growth of 40 per cent. through 2010.

#### Convergence of target markets

The Directors believe there is currently a convergence of needs in its target markets, with both utilities and their customers seeking to reduce the cost of energy and water. The Directors believe that the factors driving the growth in demand for water and energy saving devices include:

- an increasing need for utility infrastructure to be monitored more efficiently in order to maximise efficiency, minimise costs and avoid water leaks or power outages, particularly in markets such as the UK where infrastructure is old. As an illustration, OFWAT has allowed price increases from water companies as part of their next 5 year investment cycle;
- high oil prices and power generation costs which are likely to lead to increased demand from C&I customers for products and services aimed at reducing their energy consumption;
- increased competition in the utility market which is requiring improvements in customer service through better understanding of customer demand;
- environmental impact of water and energy consumption;
- legislation, such as carbon trading; and
- an increased understanding of how technology and the Internet can be used to provide the above.

#### The market for M2M applications for automated meter reading (AMR) and utilities

Meters are used for measuring the provision of utility services (water, electricity, gas and heat) for almost all commercial, industrial and municipal/government customers across the world. Measurements are then used for billing, customer information and consumption and network analysis.

It is estimated that there are currently 1.3 billion utility meters in operation worldwide. Outside Europe, North America and Japan, industrialisation allied with population growth and urbanisation is driving the market in utility metering devices.

There are some 25 million electricity meters in the UK, along with 20 million gas meters and five million water meters. While the electricity and gas meter numbers are relatively constant, water meters have increased from 1.7 million in 1997 to 4.8 million in 2003. This is because Ofwat (the water regulator for England and Wales) has obliged all new properties to have water meters fitted. Meters can also be retrofitted free of charge, on request. The Directors believe that this pattern of growth is set to continue until at least 2010.

Even in developing economies, metering can be extensive. For example, there are estimated to be 21 million electricity meters in Russia and 120 million in India.

#### The cost of meter reading

In the UK, the operation of metering is estimated to cost circa £800 million per annum. Initially, Qconnectis is targeting the highest value installations — namely commercial and industrial meters. The Directors believe that automation will only extend to domestic consumer meters once commercial and industrial meters have been extensively automated.

### *The need for an automated method of meter reading and remote data collection*

Utilities are under pressure to conserve energy and reduce costs by minimising losses of energy or water as they are transported through the utility network. Large users of energy or water are seeking to reduce costs by reducing usage.

The markets for energy conservation are growing as utilities come under pressure from governments to reduce usage of energy and water by end users in order to comply, for example, with carbon emission reduction targets. Climate change levies applied by governments to major public and private enterprises as a result of the Kyoto Protocol are also putting utilities and their C&I customers under pressure to reduce usage. The Kyoto Protocol, which came into force on 16 February 2005, commits 30 industrialised nations to meeting quantitative targets for reducing or limiting the emission of greenhouse gases such as carbon dioxide by the year 2012.

Sophisticated metering is required by major organisations to audit their own compliance with such regulatory demands. Qconnectis' metering systems and software have other advantages such as allowing utilities and C&I users to pinpoint the sources and magnitude of energy or water losses caused by factors such as theft, gas leaks, water leakage or pipe bursts. Similarly, the technology allows large energy or water users to compare the energy and water consumption patterns of various sites or plants, and to spot anomalies. The ESTA (Energy Systems Trade Association) estimates energy savings from the use of such technology for businesses can be in the range of 5 per cent. to 15 per cent. In an environment of increasing energy prices and investment in water infrastructure, the Directors believe there is increasing demand for solutions such as that which Qconnectis is able to provide.

#### **Automated meter reading systems**

Automated meter reading ("AMR") systems enable labour intensive and low value activities such as meter reading by employees or contractors to be replaced with remote downloading of data. It also permits these readings to be automatically translated into customer bills by back office systems.

The majority of AMR systems now in use are walk-by or drive-by systems, such as the one developed by Michael Tapia at Talisman Systems. Drive-by systems involve attaching transmitters to utility meters and driving a van through the customer area, from which data would be downloaded. These systems started operating in the early 1990s. This is still a relatively labour intensive and complex form of data acquisition. These systems work best in urban areas, due to the costs involved in reaching more remote customers.

Further developments included proprietary "fixed network" systems — effectively a radio network dedicated solely to meter reading. While involving more automation of data acquisition, they require significantly higher capital spending (as the utility effectively has to buy and install a proprietary cellular radio network solely for meters with associated masts and concentrators). However, these systems can provide a greater range of metering information, such as consumption profiles, over short or extended periods of time.

Since 2000, certain companies such as Qconnectis have used the Internet to disseminate utility metering data on a two way basis using public networks such as GSM, telephone, broadband and satellite. This allows for effectively real time readings to be made for all utility meters without investing in proprietary communications infrastructure. The use of public communications systems (as distinct from manual meter reading or the limited-range proprietary networks of some competitors) also means that the meters read by Qconnectis can be very remote and dispersed nationally and internationally. Data can be taken from the meter every 15 minutes rather than the normal monthly or quarterly readings of other less automated technologies, meaning that utilities can obtain high resolution information on the performance of their network (eg. leaks or power outages), consumer demand, and instant alerts.



## **The Qonnectis technology**

In 2001, Qonnectis launched the *iStaQ* Internet based AMR system. Qonnectis believes that at its launch this was the world's first totally integrated and modular system for two-way fully remote communications with remote machines and sensors over the Internet. The hardware is compact and contains a proprietary 16-bit computer which connects to utility meters and has ultra-lower power consumption, giving an operational life of over ten years, even when communicating over GSM (digital mobile telephony) on a daily basis. *iStaQ* devices in the field communicate with the central Qonnectis Internet Data Centre, which runs Qonnectis' own communications and data collection server software. The Company's technology recently received patent approval in the UK and further patent applications have also been made in other territories, including the USA.

The Directors believe the optimum form of remote machine communications is to use the plethora of public networks rather than build bespoke networks. Similarly, Qonnectis is focused on fully remote two-way communications rather than the walk-by and drive-by radio systems. Communications therefore take place over public wide area networks (WANs) using GSM, hardwire telephone, satellite or broadband Internet connections. Customer data is collected, managed and stored in a database which is accessed through the Internet. The Qonnectis computer software applications and data servers are hosted in a data centre in the UK.

Utilities and authorised customers can access their individually branded web site's full meter data, alarm notifications, profile and energy and water usage charts. They are also able to remotely command *iStaQ* devices and meters in the field.

In September 2003 Qonnectis launched the *iStaQ-LG*, a small communications device which can read utility meters and sensors and store that data within its own memory. This allows a unit to be attached to a meter, taking reads every 15 minutes and then, at a pre-set interval, connect to the central Qonnectis internet servers and send all the data. It also incorporates an alarm system which will lead to immediate notification of abnormal energy or water consumption, enabling managers to note changes in customer use or deterioration in the quality of energy supply and potential power cuts. Likewise, water utilities will be able immediately to spot leaks and pipe bursts.

## **Awards**

In December 2003, Qonnectis was a finalist in the award category for "Most Innovative & Effective Multi-Utility Service" and "Most Effective Monitoring & Control System" at the IWEX Exhibition in the UK.

## **The Qonnectis product range**

Qonnectis offers either *iStaQs* (complete ready-built solutions including all modules) or separate *iQard* modules to be combined (stacked) to create bespoke *iStaQ* solutions. With some exceptions, all of the units outlined below are currently being manufactured and marketed. The units can be powered by mains or batteries (with a ten year battery life). The *iStaQs* communicate with Qonnectis' central data centre operating Qonnectis "Qanasta" suite of server software.

Qonnectis' product range includes the following components:

<i>Product name</i>	<i>Description</i>
<i>iStaQ 320 Series</i>	The main Qonnectis communications hardware. <i>iStaQs</i> are communications devices designed to connect to utility meters and sensors and to then communicate with central data servers via the Internet or over other networks, such as telephone or GSM. <i>iStaQs</i> are made from assemblies of <i>iQard</i> modules (see below). Qonnectis also supplies a number of application-specific <i>iStaQ</i> devices such as for utility network monitoring or environmental monitoring such as the <i>iStaQ-LG</i> and the <i>iStaQ-AL</i> .

### *iQard Modules 320 Series*

iQards are individual modular circuit boards which are combined to create specific solutions. A basic combination includes the Core Module, Interface Module, Communications Module, and Power Module. The Modules simply plug in together in the iStaQ enclosure.

### *Qanasta Server Suite*

Software applications for machine data collection and management. iStaQs communicate with central servers running Qanasta. These are mainly situated at Qconnectis' managed service data centre.

### *myMeter*

myMeter refers to the Internet meter information and analysis. Customers log onto the web site [www.mymeter.info](http://www.mymeter.info) with their secure passwords and can then access their specific data. myMeter can also import data from utilities existing manual meter reading systems if required.

### *Ancillary products and services*

Specialist software for aM&T (automated monitoring of energy usage and targeting of problems/savings) and services such as installation, maintenance and training.

## **Qconnectis Strengths**

The Directors believe that the Group has particular strengths appropriate to its target market:

- it offers a full solution: Qconnectis provides an end-to-end solution, connecting to the meter, providing communications and data collection, providing analysis and automated alerts, and providing the customer-facing web sites and services;
- it is cost-effective: the Qconnectis technology, use of public networks and the Internet, together with its managed services, keeps infrastructure and operational costs down, whilst providing many benefits in terms of utility operation, billing and management;
- it can operate globally: Qconnectis can collect data nationally and internationally. Even if a customer such as a utility or retail chain has highly dispersed sites, the data is all brought to one point;
- the system is “plug-and-play”: the Qconnectis System does not require the customer to invest heavily in new infrastructure — there is no need to build proprietary communications networks or to maintain them, no need to run specific software; plug the box on the meter and Qconnectis takes care of the rest;
- the system makes possible remote access: Qconnectis' use of multiple public networks and ten year battery life means that dispersed and/or highly remote devices can be communicated with — utility customers typically have very large areas with many remote sites; or enterprise customers such as retail chains or the NHS can have many sites dispersed geographically;
- the system incorporates two-way communications: Data can be transmitted to and from the iStaQ devices. For example, meters reads are taken from the meter and sent to the Internet data centre in one direction; in the opposite direction a command can be sent from the web site to, for example, read the meter immediately on demand, or telling the iStaQ to change its parameters or potentially to close a valve remotely because a gas leak has been detected; and
- Qconnectis offers on-demand 24-hour access: A full 24/7 service ensuring that a utility's network or an enterprise customer's site is always monitored. Customers can access the web site, read meters on demand at the press of a button, and receive data at 15-minute intervals.

In August 2003, the Qconnectis System was approved by the Carbon Trust for 100 per cent. first year capital allowances on investments in energy saving technologies and products. This should enable qualifying businesses to write off the whole cost of their investment against their taxable profits for the period during which they make the investment in Qconnectis technology and products. The Qconnectis System also qualifies for a similar scheme for water metering under the “Water Technology List”.

On 7 February 2005, Qconnectis announced the launch of a range of environmental solutions, offering data monitoring for water and gas leaks, flood alerts and air and water quality. This has been achieved by developing Qconnectis's remote communications technology to enable it to connect to environmental sensors.

## **The Qonnectis marketing approach**

Qonnectis focuses on the provision of outsourced managed services — its main service offering is a multi-year service agreement to provide the *iStaQ* communications hardware and operate the data communications, data storage and internet presentation on behalf of the customer via its automated data centre. Such contracts are expected to generate up to £2,000 per meter over five years. Customer trials have taken place with utilities, commercial and industrial users, along with a range of other organisations including public sector organisations, energy management companies and County Councils. The Directors believe that such trials will increase due to European legislation that came into force in 2005, affecting large organisations' responsibilities for energy efficiency .

In the short to medium term, Qonnectis will continue to focus on utilities themselves and on high value commercial and industrial installations where the Directors believe higher margins can be achieved. Initial customers and users include:

- Utilities such as Scottish Water, Cambridge Water, Macao Water, Générale des Eaux Lyon and Société Wallonne des Eaux;
- Corporate clients such as First Group, Iceland Supermarkets, Seta, Martec and O-Consult; and
- Public sector clients such as NHS Wales, NHS England, Royal Air Force, Leeds City Council, Cork County Council and Kilkenny County Council.

Follow-on orders have been received from some of these organisations.

Feedback received from clients and users indicates that savings and advantages include:

- a utility customer is now reading its meters accurately, having found one particular case where manual meter reading resulted in a misreading by a factor of ten over the previous four years;
- a hospital saved £180,000 following the use of the Qonnectis System and automatically being advised by Qonnectis of a major water leak, which once resolved dramatically reduced water consumption and led to a substantial rebate from the local water utility;
- a utility is installing the Qonnectis System at its most important C&I customers so that it can maximise customer service;
- a multinational bus and rail operator discovered that staff on its industrial sites were using older machinery rather than new, more energy- and water-efficient devices to carry out work during the night shift; and
- a supermarket chain was able to identify problems with power supply from its on-site generators, which was causing it to have to buy energy expensively from the grid.

Third party estimates show potential savings of 5 per cent. – 15 per cent. for all its customers, which could be further increased through activities such as energy management.

## **Competition**

The Directors believe that the Company currently faces competition predominantly from suppliers of more traditional technologies for the provision of utility data.

Most meters are still read manually although handheld computers are often used to enable human meter readers to key in visual meters. Companies supplying such handheld devices include Psion and Radix. A variant on this theme is data logging. Companies such as Primayer, Technolog and Elcomponents supply data loggers - data storage devices which are left on a meter and capture its data frequently. A human being then plugs a computer into the device and retrieves the data. Some providers provide GSM communications to a remote computer.

Automated meter reading technologies do exist and are predominantly of the “walk-by” or “drive-by” type, where a human meter reader equipped with a radio-enabled device walks or drives past a property and capture its meter read from outside. Companies providing such equipment include Advanced Technology, Itron and Talisman Systems.

Other competing technologies include proprietary fixed network meter reading – radio devices attached to meters that communicate via proprietary cellular network, provided by companies such as Advanced Technology and Itron.

The Directors are not aware of any organisation that currently offers a combination of products and services such as those of the Company.

## PART III

### RISK FACTORS

**In addition to the other relevant information set out in this document, the following specific factors should be considered carefully in evaluating whether to make any investment in the Company. The investment offered in this document may not be suitable for all of its recipients. If you are in any doubt about the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

**It should be noted that the risks described below are not the only risks faced by the Company. There may be additional risks that the Directors currently consider not to be material or of which they are currently unaware.**

#### **Stage of the Group's development**

The Group is at an early stage of development and its business strategy is not proven. The Group may not be able to generate a sufficient number of contracts for the sale of products or services to satisfy its objectives. Further, even if the Group is able to generate a sufficient number of contracts, the value and profitability of those contracts may not be sufficient to ensure the long-term well-being of the business. Even if the Group is successful at generating contracts, it may not achieve profitability for a number of years.

In common with many early stage businesses, the Group is dependent on the active involvement of the Board in all aspects of the Group's affairs. As the business grows, it may face difficulties in establishing a suitable management structure for a larger company and in recruiting suitably skilled and qualified staff.

#### **Competition**

While the Directors believe that they have a set of skills that is unique, the Group may face competition from companies in business at present or not yet established that are better funded, staffed or equipped than the Group. There is also a risk that the Group's target customers, principally utility companies, may choose to set up similar remote monitoring services. Competition from any source may adversely affect the Group's ability to generate income. Further, competitors may develop products or technologies that make Qconnectis' technology obsolete.

#### **Dependence on key personnel**

The Group's business success depends on its ability to attract, retain and motivate skilled personnel. There can be no assurance that the Group will be able to attract such key personnel or retain other qualified personnel in the future. An inability to attract, engage or retain the necessary sales, technical, managerial and/or other relevant personnel could have a material adverse effect upon the Group's business, results, operations or financial condition.

To mitigate this risk, the Company has introduced the Share Option Scheme. The Company has also procured key man insurance in respect of Michael Tapia. Nonetheless, the Group faces a risk of losing key employees, which may have adverse financial consequences for the Group.

#### **Legal and contractual risks**

All agreements are subject to interpretation and some arrangements are not binding. There is no guarantee that the Group will be able to enforce all its rights under its agreements or arrangements with third parties.

#### **Subsequent fundraising**

The Group may require additional financial resources to continue funding its future expansion. The Company may in the future seek to raise additional funds. No assurance can be given that any such additional financing will be available or that, if available, it will be available on terms favourable to the Company or its shareholders.

Notwithstanding statutory pre-emption rights, if additional funds are raised through the issue of equity securities, the percentage ownership of then current shareholders of the Company may be reduced and such securities may have rights, preferences or privileges senior to those of the holders of the Ordinary Shares.

### **Regulatory and legal changes**

The Group's strategy has been formulated in the light of the current regulatory and legal environment and likely future changes. The regulatory and legal environment may change in the future and such changes may have a material adverse effect on the business.

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted.

### **Intellectual property risk**

The Group is the registered holder of one patent in the UK, a number of patent applications abroad and has developed other intellectual property. However, it faces the risk of not being able to protect its intellectual property, and of being forced to initiate litigation to protect its position which may take time and money to resolve.

There can be no assurance that patents will be issued with respect to applications now pending or which may be applied for in the future. The lack of any such patents may have a material adverse effect on the Group's ability to develop its business. No assurance can be given that patents granted to the Group will be sufficiently broad in their scope to provide protection for the Group's intellectual property rights against third parties. There can be no assurance as to the validity or scope of any patents which have been, or may in the future be, granted to the Group or that claims relating to the patents will not be made by other parties.

The commercial success of the Group also depends upon the Group not infringing patents granted to third parties who may have filed applications or who have obtained or may obtain patents relating to business processes which might inhibit the Group's ability to develop and exploit its own business. If this is the case, the Group may have to obtain alternative technology or agree commercial terms on the exploitation of other parties' intellectual property rights. There can be no assurance that the Group will be able to obtain alternative technology or, if any licences are required, that the Group will be able to obtain any such licence on acceptable terms, if at all.

To the extent that the Group's processes are protected by intellectual property rights and the Group is alleged to infringe third party intellectual property rights, then litigation may be necessary and could result in substantial cost to the Group, with no guarantee of success. The Group does not carry any intellectual property insurance.

The Directors rely upon their knowledge of the market place to identify any breach, or alleged breach, of the patent held by the Company and they do not normally instruct patent attorneys for this purpose. No patent search was instructed in connection with the preparation of this document.

### **Reliance on third parties**

The Group's activities may be dependent on third party suppliers of products and services as well as other organisations with which it has agreed to collaborate. Inadequate performance by these third parties may result in delays to the development of products or in the supply of services to customers. There is also a risk that the Group will fail to establish suitable commercial relationships with organisations that would enable the Group to achieve its objectives.

### **General economic conditions**

Changes in the general economic climate in which the Group operates may adversely affect the financial performance of the Group. Factors that may contribute to that general economic climate include the level of direct and indirect competition against the Group, industrial disruption, interest rates and the rate of inflation.

### **Taxation**

Circumstances may arise where the Directors believe that the interests of the Company are not best served by acting in a way that preserves the EIS status of the Company. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to preserve any such relief or status.

Legislation may be introduced that could adversely affect the taxation position of the Company or its shareholders.

**Liquidity of the Ordinary Shares**

The marketplace for the Ordinary Shares may be subject to wide fluctuations in response to many factors, including variations in the results of the Group, divergence in financial results from analysts' expectations, changes in earnings estimates and changes in estimates in net asset value by stock market analysts, general economic conditions, legislative changes in the Group's sector and other events and factors outside 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. The trading of Ordinary Shares on AIM should not be taken as implying that there will be a liquid market for Ordinary Shares. It may be more difficult for an investor to realise their investment in the Company than in a company whose shares are quoted on the Official List of the UK Listing Authority. Investors may not get back the whole of their investment.

**The risks listed above do not necessarily comprise all those associated with an investment in the Company.**

## PART IV

### FINANCIAL INFORMATION

#### ACCOUNTANTS' REPORT ON QCONNECTIS PLC

The Directors  
Qconnectis plc  
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Twickenham  
Middlesex TW2 5RF

Grant Thornton Corporate Finance  
Grant Thornton House  
Melton Street  
Euston Square  
London NW1 2EP

The Directors  
HB-corporate  
40 Marsh Wall  
London E14 9TP

18 February 2005

Dear Sirs

#### QCONNECTIS PLC — ACCOUNTANTS' REPORT

We report on the financial information set out below. This financial information of Qconnectis plc (“Qconnectis” or the “Company”) and its subsidiary undertakings (together the “Qconnectis Group”) has been prepared for the inclusion in the admission document of the Company dated 18 February 2005 (the “Admission Document”).

#### **Basis of preparation**

The financial information presented herein is based on the audited consolidated financial statements of Qconnectis for the year ended March 2002, the six months ended September 2002, the year ended September 2003 and the nine months ended June 2004, to which no adjustments were considered necessary, and has been prepared on the basis set out in note 1 below.

#### **Responsibility**

The financial statements of Qconnectis are the responsibility of the directors of this Company who approved their issue.

The directors of the Company are responsible for the contents of the Admission Document.

It is our responsibility to compile the financial information set out in this 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 UK Auditing Practices Board. Our work included an assessment of the evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by Mazars LLP relating to the audits of the financial statements for 2003 and 2004 underlying the financial information for those periods. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements and whether the accounting policies are appropriate to the Qconnectis Group's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Qconnectis Group as at 31 March 2002, 30 September 2002, 30 September 2003 and 30 June 2004 and of its results and cash flows for the periods then ended.

## Consent

We consent to the inclusion in the Admission Document dated 18 February 2005 of this report and accept responsibility for this report for the purposes of Regulation 13(1)(d) and paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## Consolidated profit and loss accounts

		<i>Six months</i>		<i>Nine months</i>	
		<i>Year ended</i>	<i>ended</i>	<i>Year ended</i>	<i>ended</i>
		<i>31 March</i>	<i>30 September</i>	<i>30 September</i>	<i>30 June</i>
		<i>2002</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Turnover	2	80,457	14,521	17,247	25,128
Cost of sales		(17,260)	(3,046)	(17,209)	(34,590)
Gross profit/(loss)		63,197	11,475	38	(9,462)
Operating expenses		(537,305)	(212,277)	(2,611,241)	(580,894)
Other operating income		—	—	4,371	79
<b>Operating loss</b>	3	(474,108)	(200,802)	(2,606,832)	(590,277)
Interest receivable	6	2,131	826	1,902	862
Interest payable	7	(1,429)	(2,632)	(16,856)	(6,788)
<b>Loss before taxation</b>		(473,406)	(202,608)	(2,621,786)	(596,203)
Taxation	8	—	80,000	(60,000)	—
<b>Loss for the period</b>		(473,406)	(122,608)	(2,681,786)	(596,203)
<b>Loss per share</b>	9				
— basic and diluted		(1.28p)	(0.32p)	(4.39p)	(0.69p)

The profit and loss account has been prepared on the basis that all operations are continuing.

There are no recognised gains and losses other than those passing through the profit and loss account.



## Consolidated balance sheets

		<i>As at</i> <i>31 March</i> <i>2002</i> £	<i>As at</i> <i>30 September</i> <i>2002</i> £	<i>As at</i> <i>30 September</i> <i>2003</i> £	<i>As at</i> <i>30 June</i> <i>2004</i> £
	<i>Notes</i>				
<b>Fixed assets</b>					
Intangible assets	10	1,562,681	1,521,557	4,100,959	3,943,566
Tangible assets	11	27,931	18,398	7,298	2,656
		<u>1,590,612</u>	<u>1,539,955</u>	<u>4,108,257</u>	<u>3,946,222</u>
<b>Current assets</b>					
Debtors	12	78,593	148,240	40,837	42,181
Cash at bank and in hand		—	90,322	78,196	15,370
		<u>78,593</u>	<u>238,562</u>	<u>119,033</u>	<u>57,551</u>
<b>Creditors: amounts falling within one year</b>	13	<u>(42,852)</u>	<u>(55,512)</u>	<u>(395,571)</u>	<u>(274,074)</u>
<b>Net current assets/(liabilities)</b>		<u>35,741</u>	<u>183,050</u>	<u>(276,538)</u>	<u>(216,523)</u>
<b>Total assets less current liabilities</b>		1,626,353	1,723,005	3,831,719	3,729,699
<b>Creditors: amounts falling due after more than one year</b>	14	<u>—</u>	<u>—</u>	<u>(141,000)</u>	<u>(114,000)</u>
		<u>1,626,353</u>	<u>1,723,005</u>	<u>3,690,719</u>	<u>3,615,699</u>
<b>Capital and reserves</b>					
Called-up share capital	15	3,728,494	3,978,382	8,627,882	8,977,636
Share premium account	16	615,201	584,573	584,573	756,002
Profit and loss account	16	<u>(2,717,342)</u>	<u>(2,839,950)</u>	<u>(5,521,736)</u>	<u>(6,117,939)</u>
<b>Equity shareholders' funds</b>	17	<u>1,626,353</u>	<u>1,723,005</u>	<u>3,690,719</u>	<u>3,615,699</u>

## Consolidated cash flow statements

	<i>Year to 31 March 2002 £</i>	<i>Period to 30 September 2002 £</i>	<i>Year to 30 September 2003 £</i>	<i>Period to 30 June 2004 £</i>
<b>Net cash outflow from operating activities</b>	(443,634)	(142,068)	(652,421)	(556,978)
<b>Returns on investments and servicing of finances</b>				
Interest received	2,131	826	1,902	862
Interest paid	(1,429)	(2,632)	(16,856)	(6,788)
<b>Net cash inflow/(outflow) for returns on investments and servicing of finance</b>	702	(1,806)	(14,954)	(5,926)
<b>Capital expenditure</b>				
Acquisitions and disposals	(281)	—	—	(2,615)
Purchase of subsidiary undertakings (net of cash acquired)	—	—	(182,987)	—
<b>Net cash outflow from capital expenditure</b>	(281)	—	(182,987)	(2,615)
<b>Net cash outflow before management of liquid resources and financing</b>	(443,213)	(143,874)	(850,362)	(565,519)
<b>Financing</b>				
Issue of ordinary share capital	382,189	219,260	687,000	521,183
New long-term bank loan	—	—	180,000	—
Repayment of long-term bank loan	—	—	(3,000)	(27,000)
Capital element of hire-purchase contracts	(11,926)	(6,439)	(1,104)	—
<b>Net cash inflow from financing</b>	370,263	212,821	862,896	494,183
<b>(Decrease) /increase in cash in the period</b>	<u>(72,950)</u>	<u>68,947</u>	<u>12,534</u>	<u>(71,336)</u>
<b>Reconciliation of operating loss to net cash outflow from operating activities</b>				
Operating loss	(474,108)	(200,802)	(2,606,832)	(590,277)
Depreciation of tangible assets	18,989	9,533	23,842	7,257
Amortisation of intangible assets	82,248	41,124	1,617,741	157,393
Decrease/(increase) in debtors	27,467	10,353	132,538	(1,344)
(Decrease)/increase in creditors within one year	(98,230)	(2,276)	180,290	(130,007)
<b>Net cash outflow from operating activities</b>	<u>(443,634)</u>	<u>(142,068)</u>	<u>(652,421)</u>	<u>(556,978)</u>
<b>Reconciliation of net cash flow to movement in net funds</b>				
(Decrease)/increase in cash in the period	(72,950)	68,947	12,534	(71,336)
Cash outflow/(inflow) from decrease/increase in debt	11,926	6,441	(175,896)	27,000
<b>Movement in net (debt)/funds in the period</b>	(61,024)	75,388	(163,362)	(44,336)
<b>Net funds/(debt) brought forward</b>	50,194	(10,830)	64,558	(98,804)
<b>Net (debts)/funds carried forward</b>	<u>(10,830)</u>	<u>64,558</u>	<u>(98,804)</u>	<u>(143,140)</u>

## Notes to the financial information

### 1. Accounting policies

#### 1.1 *Accounting convention*

The financial information is prepared under the historical cost convention.

The Group is dependent on obtaining further finance in order to meet its liabilities as they fall due. The Group is intending to raise £1.2 million net of expenses from the Admission and Placing of shares on the AIM Market. The accounts have been prepared on a going concern basis on the assumption that this strategy will be successful. If this assumption proves to be incorrect, adjustments would have to be made to reduce the value of the assets to their recoverable amount, to provide for any further liabilities that might arise and to reclassify fixed assets.

#### 1.2 *Compliance with accounting standards*

The financial information has been prepared in accordance with applicable accounting standards.

#### 1.3 *Basis of consolidation*

The consolidated financial information incorporates the financial statements of the Company and its subsidiary undertakings, made up to the respective period ends. The results of subsidiaries sold or acquired are included in the profit and loss account up to or from the date at which control passes. Intra-group sales and profits are eliminated fully on consolidation.

Where the Group has an investment in an entity which is sufficient to give the Group a participating interest, and over which it is in a position to exercise significant influence, the entity is treated as an associated undertaking and is accounted for using the equity method of accounting. The Group's interests in joint ventures are accounted for using the gross equity method of accounting.

#### 1.4 *Turnover*

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

#### 1.5 *Goodwill*

Goodwill may arise on acquisition of subsidiary undertakings. Goodwill represents the excess of costs over fair value of group assets acquired. In accordance with Financial Reporting Standard 10 such goodwill is capitalised as an intangible asset and amortised by equal instalments against profits over expected life. The expected life is normally twenty years. Where the directors consider that impairment in goodwill is appropriate provision will be made.

#### 1.6 *Research and development*

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the Group is expected to benefit.

#### 1.7 *Tangible fixed assets and depreciation*

Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Development tools and equipment	25 per cent. straight line
Plant and machinery	33 per cent. straight line
Fixtures, fittings and equipment	33 per cent. straight line

#### 1.8 *Leasing*

Assets held under finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period. Hire purchase transactions are dealt with similarly, except that assets are

depreciated over their useful lives. Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

### 1.9 *Investments*

Fixed asset investments are stated at cost less provision for diminution in value.

### 1.10 *Deferred taxation*

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

### 1.11 *Foreign currency translation*

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

## 2. **Turnover**

Turnover represents the net invoice amount of goods sold and services provided and excludes value added tax and other sales taxes.

The total turnover of the Group for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

## 3. **Operating loss**

	<i>Year ended</i> <i>31 March</i> <i>2002</i> £	<i>Six months</i> <i>ended</i> <i>30 September</i> <i>2002</i> £	<i>Year ended</i> <i>30 September</i> <i>2003</i> £	<i>Nine months</i> <i>ended</i> <i>30 June 2004</i> £
Operating loss is stated after charging:				
Amortisation and impairment of goodwill	82,248	41,124	1,617,741	157,393
Depreciation of tangible assets	18,989	9,533	23,842	7,257
Loss on foreign exchange transactions	—	—	—	312
Research and development	—	—	6,405	53
Operating lease rentals	—	9,236	23,406	14,850
Auditors' remuneration	3,000	3,000	10,100	14,050
Accountancy services provided	—	—	31,196	29,090
Remuneration of auditors for non-audit work	600	1,000	—	3,000
	<u>600</u>	<u>1,000</u>	<u>—</u>	<u>3,000</u>

The amortisation of goodwill in the year ended 30 September 2003 includes £1,480,433 relating to the full write-down of goodwill for Web Orator.com.

#### 4. Directors' remuneration and share interests

##### (a) Directors' emoluments

	<i>Basic Salary</i> £	<i>Bonus</i> £	<i>Pension</i> £	<i>Benefits</i> £	<i>Total</i> £
<b>30 June 2004</b>					
R.M. Taylor	11,250	—	—	—	11,250
M. Tapia	37,500	—	—	—	37,500
	<u>48,750</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>48,750</u>
<b>30 September 2003</b>					
TM Money	39,847	—	—	—	39,847
RM Shears	39,846	—	—	1,970	41,816
CP Duggan	—	—	—	—	—
RM Taylor	—	—	—	—	—
MA Tapia	50,000	—	—	—	50,000
	<u>129,693</u>	<u>—</u>	<u>—</u>	<u>1,970</u>	<u>131,663</u>
<b>30 September 2002</b>					
Total directors' emoluments					71,665
<b>31 March 2002</b>					
Total directors' emoluments					87,604

The directors for the periods ended 31 March 2002 and 30 September 2002 are no longer directors of the Company.

##### (b) Directors' share interests

	<i>Ordinary 10p shares as at</i>			
	<i>31 March 2002 No.</i>	<i>30 September 2002 No.</i>	<i>30 September 2003 No.</i>	<i>30 June 2004 No.</i>
TM Money	12,126,000	12,126,000	—	—
RM Shears	10,716,000	10,716,000	—	—
CP Duggan	658,000	658,000	658,000	—
RM Taylor	—	—	1,450,403	—
MA Tapia	—	—	20,528,776	—
	<u>—</u>	<u>—</u>	<u>20,528,776</u>	<u>—</u>
	<i>Ordinary 1p shares as at</i>			
	<i>31 March 2002 No.</i>	<i>30 September 2002 No.</i>	<i>30 September 2003 No.</i>	<i>30 June 2004 No.</i>
RM Taylor	—	—	—	1,450,403
MA Tapia	—	—	—	20,528,776
	<u>—</u>	<u>—</u>	<u>—</u>	<u>20,528,776</u>
	<i>Deferred 1p shares as at</i>			
	<i>31 March 2002 No.</i>	<i>30 September 2002 No.</i>	<i>30 September 2003 No.</i>	<i>30 June 2004 No.</i>
RM Taylor	—	—	—	13,053,630
MA Tapia	—	—	—	184,758,984
	<u>—</u>	<u>—</u>	<u>—</u>	<u>184,758,984</u>

**5. Staff costs (including directors' emoluments)**

	<i>Year ended</i> <i>31 March</i> <i>2002</i> <i>£</i>	<i>Six months</i> <i>ended</i> <i>30 September</i> <i>2002</i> <i>£</i>	<i>Year ended</i> <i>30 September</i> <i>2003</i> <i>£</i>	<i>Nine months</i> <i>ended</i> <i>30 June 2004</i> <i>£</i>
Wages and salaries	234,249	90,936	189,754	118,917
Social security costs	21,397	9,308	28,901	16,620
	<u>255,646</u>	<u>100,244</u>	<u>218,655</u>	<u>135,537</u>

The average number of employees (including directors) during each period was:

	<i>Year ended</i> <i>31 March</i> <i>2002</i> <i>No.</i>	<i>Six months</i> <i>ended</i> <i>30 September</i> <i>2002</i> <i>No.</i>	<i>Year ended</i> <i>30 September</i> <i>2003</i> <i>No.</i>	<i>Nine months</i> <i>ended</i> <i>30 June 2004</i> <i>No.</i>
Management	3	3	3	3
Consultants	5	5	6	3

**6. Interest receivable**

	<i>Year ended</i> <i>31 March</i> <i>2002</i> <i>£</i>	<i>Six months</i> <i>ended</i> <i>30 September</i> <i>2002</i> <i>£</i>	<i>Year ended</i> <i>30 September</i> <i>2003</i> <i>£</i>	<i>Nine months</i> <i>ended</i> <i>30 June 2004</i> <i>£</i>
Bank interest	2,131	826	1,902	862

**7. Interest payable**

	<i>Year ended</i> <i>31 March</i> <i>2002</i> <i>£</i>	<i>Six months</i> <i>ended</i> <i>30 September</i> <i>2002</i> <i>£</i>	<i>Year ended</i> <i>30 September</i> <i>2003</i> <i>£</i>	<i>Nine months</i> <i>ended</i> <i>30 June 2004</i> <i>£</i>
On bank loans and overdrafts	—	70	4,308	8,285
Lease finance charges	1,429	238	—	—
On overdue tax	—	2,324	10,923	(1,497)
Other interest	—	—	1,625	—
	<u>1,429</u>	<u>2,632</u>	<u>16,856</u>	<u>6,788</u>

## 8. Taxation

	<i>Year ended 31 March 2002 £</i>	<i>Six months ended 30 September 2002 £</i>	<i>Year ended 30 September 2003 £</i>	<i>Nine months ended 30 June 2004 £</i>
<b>Domestic current-year tax</b>				
UK Corporation Tax	—	(80,000)	—	—
Adjustment for prior period	—	—	60,000	—
<b>Current tax (credit)/charge</b>	<u>—</u>	<u>(80,000)</u>	<u>60,000</u>	<u>—</u>
<b>Factors affecting the tax (credit)/ charge for the period</b>				
Loss on ordinary activities before taxation	<u>(473,406)</u>	<u>(202,608)</u>	<u>(2,621,786)</u>	<u>(596,203)</u>
Loss on ordinary activities before taxation multiplied by the standard rate of UK Corporate Tax (2002: 20%, 2002: 19%, 2003 19%, 2004: 10%)	(94,681)	(38,496)	(498,139)	(59,620)
Effects of:				
Non-deductible expenses	23,166	12,170	62,750	968
Depreciation	3,422	1,552	318,377	16,465
Capital allowances	—	—	(1,409)	(333)
Tax losses	426	157	118,421	42,520
Losses to be utilised in future accounting period	67,667	24,617	—	—
Research and development tax credit claimed on prior periods	—	(80,000)	60,000	—
	<u>94,681</u>	<u>(41,504)</u>	<u>558,139</u>	<u>59,620</u>
<b>Current tax (credit)/charge</b>	<u>—</u>	<u>(80,000)</u>	<u>60,000</u>	<u>—</u>

The Group has losses available for carry-forward against future trading profits in excess of £1,500,000.

## 9. Losses per share

Losses per share have been calculated based on the weighted average ordinary share capital for the periods ended 31 March 2002, 30 September 2002, 30 September 2003 and 30 June 2004.

	<i>Year ended 31 March 2002 £</i>	<i>Six months ended 30 September 2002 £</i>	<i>Year ended 30 September 2003 £</i>	<i>Nine months ended 30 June 2004 £</i>
<b>Losses per share</b>				
Net loss attributable to shareholders	<u>(473,406)</u>	<u>(122,608)</u>	<u>(2,681,786)</u>	<u>(596,203)</u>
Basic and diluted weighted average of ordinary shares	<u>36,869,012</u>	<u>38,814,307</u>	<u>61,154,895</u>	<u>87,028,089</u>
Basic EPS	(1.28)p	(0.32)p	(4.39)p	(0.69)p
Diluted EPS	<u>(1.28)p</u>	<u>(0.32)p</u>	<u>(4.39)p</u>	<u>(0.69)p</u>

## 10. Intangible fixed assets

	<i>As at 31 March 2002</i>	<i>As at 30 September 2002</i>	<i>As at 30 September 2003</i>	<i>As at 30 June 2004</i>
<i>Goodwill</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
<b>Cost</b>				
Brought forward	3,289,858	3,289,858	3,289,858	7,487,001
Additions	—	—	4,197,143	—
Carried forward	<u>3,289,858</u>	<u>3,289,858</u>	<u>7,487,001</u>	<u>7,487,001</u>
<b>Amortisation</b>				
Brought forward	1,644,929	1,727,177	1,768,301	3,386,042
Charge for the period	82,248	41,124	1,617,741	157,393
Carried forward	<u>1,727,177</u>	<u>1,768,301</u>	<u>3,386,042</u>	<u>3,543,435</u>
<b>Net book value</b>				
At beginning of period	<u>1,644,929</u>	<u>1,562,681</u>	<u>1,521,557</u>	<u>4,100,959</u>
At end of period	<u>1,562,681</u>	<u>1,521,557</u>	<u>4,100,959</u>	<u>3,943,566</u>

Goodwill represents the amount by which the cost of acquired subsidiary undertakings exceeded the aggregate fair values of their identifiable assets and liabilities.



## 11. Tangible fixed assets

	<i>Development tools &amp; equipment</i> £	<i>Plant &amp; machinery</i> £	<i>Fixtures, fittings &amp; equipment</i> £	<i>Total</i> £
<b>Cost</b>				
At 1 April 2001	—	—	57,494	57,494
Acquisitions	—	—	281	281
At 31 March 2002	—	—	57,775	57,775
Acquisitions	—	—	—	—
At 30 September 2002	—	—	57,775	57,775
Acquisitions	1,790	10,696	256	12,742
At 30 September 2003	1,790	10,696	58,031	70,517
Acquisitions	360	2,205	50	2,615
At 30 June 2004	2,150	12,901	58,081	73,132
<b>Accumulated depreciation</b>				
At 1 April 2001	—	—	10,855	10,855
Charge for the period	—	—	18,989	18,989
At 31 March 2002	—	—	29,844	29,844
Charge for the period	—	—	9,533	9,533
At 30 September 2002	—	—	39,377	39,377
Charge for the period	1,422	3,914	18,506	23,842
At 30 September 2003	1,422	3,914	57,883	63,219
Charge for the period	367	6,750	140	7,257
At 30 June 2004	1,789	10,664	58,023	70,476
<b>Net book value</b>				
At 30 June 2004	361	2,237	58	2,656
At 30 September 2003	368	6,782	148	7,298
At 30 September 2002	—	—	18,398	18,398
At 31 March 2002	—	—	27,931	27,931

Included above are assets held under finance leases or hire-purchase contracts as follows:

	<i>Fixtures, fittings &amp; equipment</i> £	<i>Total</i> £
<b>Net book value</b>		
At 1 April 2001	26,789	26,789
At 31 March 2002	16,841	16,841
At 30 September 2002	11,867	11,867
At 30 September 2003	—	—
At 30 June 2004	—	—
<b>Depreciation charge</b>		
Year ended 31 April 2002	(9,948)	(9,948)
Six months ended 30 September 2002	(4,974)	(4,974)
Year ended 30 September 2003	—	—
Nine months ended 30 June 2004	—	—

## 12. Debtors

	<i>As at</i> <i>31 March</i> <i>2002</i> £	<i>As at</i> <i>30 September</i> <i>2002</i> £	<i>As at</i> <i>30 September</i> <i>2003</i> £	<i>As at</i> <i>30 June</i> <i>2004</i> £
Corporation tax	—	80,000	20,000	20,000
Called up share capital not paid	—	—	110	110
Other debtors	—	229	18,437	19,101
Prepayments and accrued income	78,593	68,011	2,290	2,970
	<u>78,593</u>	<u>148,240</u>	<u>40,837</u>	<u>42,181</u>

## 13. Creditors: amounts falling due within one year

	<i>As at</i> <i>31 March</i> <i>2002</i> £	<i>As at</i> <i>30 September</i> <i>2002</i> £	<i>As at</i> <i>30 September</i> <i>2003</i> £	<i>As at</i> <i>30 June</i> <i>2004</i> £
Bank loans and overdrafts	3,287	24,660	36,000	44,510
Net obligations under finance lease and hire purchase contracts	7,543	1,104	—	—
Trade creditors	14,427	2,087	139,370	129,996
Taxes and social security costs	10,095	4,728	20,824	6,109
Directors' current accounts	—	15,433	15,433	15,912
Other creditors	—	—	24,735	2,704
Accruals and deferred income	7,500	7,500	159,209	74,843
	<u>42,852</u>	<u>55,512</u>	<u>395,571</u>	<u>274,074</u>

### Net obligations under finance leases and hire purchase contracts:

Repayable within one year	<u>7,543</u>	<u>1,104</u>	<u>—</u>	<u>—</u>
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#### 14. Creditors: amounts falling due after more than one year

	<i>As at</i> 31 March 2002 £	<i>As at</i> 30 September 2002 £	<i>As at</i> 30 September 2003 £	<i>As at</i> 30 June 2004 £
Other loans	—	—	141,000	114,000
<b>Analysis of loans</b>				
Wholly repayable within five years	—	—	177,000	150,000
Included in current liabilities	—	—	(36,000)	(36,000)
	—	—	141,000	114,000
<b>Loan maturity analysis</b>				
In more than one year but not more than two years	—	—	36,000	36,000
In more than two years but not more than five years	—	—	105,000	78,000

#### 15. Share capital

	<i>As at</i> 31 March 2002 £	<i>As at</i> 30 September 2002 £	<i>As at</i> 30 September 2003 £	<i>As at</i> 30 June 2004 £
<b>Authorised equity</b>				
Ordinary shares of 10p each	10,000,000	10,000,000	10,000,000	—
221,899,200 Ordinary shares of 1p each	—	—	—	2,218,992
778,100,800 Deferred shares of 1p each	—	—	—	7,781,008
1,000,000 Ordinary B shares of £1 each	—	—	—	1,000,000
	10,000,000	10,000,000	10,000,000	11,000,000
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 10p each	3,728,494	3,978,382	8,627,882	—
89,312,800 Ordinary shares of 1p each	—	—	—	893,128
778,100,800 Deferred shares of 1p each	—	—	—	7,781,008
303,500 Ordinary B shares of £1 each	—	—	—	303,500
	3,728,494	3,978,382	8,627,882	8,977,636

Pursuant to a prospectus issued on 11 April 2002 in connection with an offer for subscription for Ordinary shares, the Company issued 2,498,883 Ordinary 10p shares of which 384,305 shares at 13.5p were allotted pursuant to the Open Offer and 2,114,578 shares at 10p.

On 4 April 2003 and 9 May 2003 the group issued 5,340,500 and 1,529,500 Ordinary shares of 10p each. These were allotted and fully paid at par for cash consideration to provide additional working capital.

On 17 April 2003 39,625,001 Ordinary shares of 10p each were allotted and fully paid at par.

On 7 October 2003, the share capital of the group was increased from £10,000,000 to £11,000,000 by the creation of a new class of 1,000,000 new Ordinary shares of £1 each (B Ordinary shares).

On 28 November 2003 176,820 Ordinary shares of 10p were allotted and fully paid at par.

On 20 February 2004, 300,000 Ordinary B shares of £1 each were allotted and fully paid at par.

On 6 April 2004, a Special Resolution was passed so that each of the issued Ordinary shares of 10p each be converted and subdivided into nine Deferred shares of 1p each and one Ordinary shares of 1p each. An Ordinary Resolution was also passed that the unissued Ordinary shares of 10p each also be subdivided in the same way.

On 6 April 2004 1,428,572 Ordinary shares of 1p each were allotted and fully paid for cash consideration at 7p per share to provide additional share capital.

On 20 April 2004 3,500 Ordinary B shares were allotted and fully paid at par for cash consideration.

On 28 June 2004 1,428,572 Ordinary shares of 1p each were allotted and fully paid for cash consideration at 7p per share to provide additional working capital.

#### 16. Statement of movement on reserves

	<i>Share premium account</i>	<i>Profit and loss account</i>	<i>Total</i>
	£	£	£
Balance at 1 April 2001	384,407	(2,243,936)	(1,859,529)
Premium on issue of shares	392,858	—	392,858
Share issue expenses	(162,064)	—	(162,064)
Retained loss for the year	—	(473,406)	(473,406)
Balance at 31 March 2002	615,201	(2,717,342)	(2,102,141)
Premium on issue of shares	13,451	—	13,451
Retained loss for the period	—	(122,608)	(122,608)
Other movements	(44,079)	—	(44,079)
Balance at 30 September 2002	584,573	(2,839,950)	(2,255,377)
Retained loss for the year	—	(2,681,786)	(2,681,786)
Balance at 30 September 2003	584,573	(5,521,736)	(4,937,163)
Premium on issue of shares	171,429	—	171,429
Retained loss for the period	—	(596,203)	(596,203)
Balance at 30 June 2004	<u>756,002</u>	<u>(6,117,939)</u>	<u>(5,361,937)</u>

#### 17. Reconciliation of movement in equity shareholders' funds

	<i>As at 31 March 2002</i>	<i>As at 30 September 2002</i>	<i>As at 30 September 2003</i>	<i>As at 30 June 2004</i>
	£	£	£	£
Loss for the financial year	(473,406)	(122,608)	(2,681,786)	(596,203)
Proceeds from the issue of shares	382,189	219,260	4,649,500	521,183
Net addition to equity shareholders' deficit/(funds)	(91,217)	96,652	1,967,714	(75,020)
Opening equity shareholders' funds	<u>1,717,570</u>	<u>1,626,353</u>	<u>1,723,005</u>	<u>3,690,719</u>
Closing equity shareholders' funds	<u>1,626,353</u>	<u>1,723,005</u>	<u>3,690,719</u>	<u>3,615,699</u>

#### 18. Related party transactions

During 2004 the group paid £nil (September 2003: £12,000, September 2002: £9,465, March 2002: £23,204) relating to accountancy and business advisory services to CMR Accountancy and Taxation Services Limited, which is a company under the common control of one of the directors during the period, Mr C P Duggan.

During the nine month period to 30 June 2004 the group bought services from PA Associates Limited, a company in which P Albuquerque is a director, the amount involved was £39,784 (2003 £nil, 2002 £nil, 2002 £nil).

**19. Fixed asset investments**

At 30 June 2004, the Company holds more than 20 per cent. of the share capital of the following companies, all of which are incorporated in England and Wales:

<i>Company</i>	<i>Shares held</i>		<i>Principal activity</i>
	<i>Class</i>	<i>%</i>	
Now! Networks Limited	Ordinary	100	Development and marketing of electronic and information technology
Web Orator.Com Limited	Ordinary	100	Business to business internet service
Qconnectis Technologies Limited	Ordinary	100	Dormant
Qconnectis Group Limited	Ordinary	100	Dormant

Yours faithfully,

**MAZARS LLP**

## UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET ASSETS OF THE GROUP

The unaudited pro forma financial information set out below has been prepared to illustrate the impact of the Placing on the consolidated net assets of the Group. The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the Group's financial position.

The audited pro forma financial information is based on the consolidated net assets of the Group as at 30 June 2004 and has been prepared on the basis that the Placing had taken place on 30 June 2004.

	<i>The Group As at 30 June 2004 (note 1) £'000</i>	<i>Adjustments for the Placing (note 2) £'000</i>	<i>Pro forma net assets of the Group (note 3) £'000</i>
<b>FIXED ASSETS</b>			
Tangible fixed assets	3	—	3
Goodwill	3,943	—	3,943
	<u>3,946</u>	<u>—</u>	<u>3,946</u>
<b>CURRENT ASSETS</b>			
Trade and other debtors	42	—	42
Cash	15	1,200	1,215
	<u>57</u>	<u>1,200</u>	<u>1,257</u>
<b>Creditors: amounts falling due within one year</b>	<u>(274)</u>	<u>—</u>	<u>(274)</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	<u>(217)</u>	<u>1,200</u>	<u>983</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	3,729	—	4,929
<b>Creditors: amounts falling due after more than one year</b>	<u>(114)</u>	<u>—</u>	<u>(114)</u>
<b>NET ASSETS</b>	<u><u>3,615</u></u>	<u><u>1,200</u></u>	<u><u>4,815</u></u>

### Notes:

1. The consolidated financial information for the Group at 30 June 2004 has been extracted without adjustment from the financial information for the Group set out in the Accountant's Report in this Part IV.
2. The estimated net proceeds of the Placing of £1.2 million are calculated on the basis that the Company issues 66,666,667 new Ordinary shares at 2.25 pence per share and that the estimated transaction expenses (excluding recoverable VAT) amount to £300,000.
3. In addition to the Placing, on 23 November 2004 it was resolved that each B (non-voting) share of £1.00 each be converted and subdivided into one hundred deferred shares of 1p each. It was further resolved that, subject to the confirmation of the Court, the share capital of the Company be reduced by cancelling the deferred shares. These transactions have no impact on the Group's net assets.

## PART V

### STATUTORY AND GENERAL INFORMATION

#### 1. Responsibility

The Directors, whose names appear on page 4 of this document, accept responsibility both individually and collectively for the information contained in this document. To the best of the knowledge of the Directors, the information contained in this document is in accordance with the facts and makes no omission likely to affect the import of such information.

#### 2. The Company

- 2.1 The Company was incorporated and registered in England and Wales on 10 February 2000 as a public limited company with the name Web Orator plc and with company number 3923150. By special resolutions dated 30 December 2002 and 7 October 2003 the Company changed its name to IP Holdings plc and its present name respectively. On 5 May 2000 the Company received a certificate issued by the Registrar of Companies under Section 117 of the Act entitling it to do business and borrow.
- 2.2 The liability of the members of the Company is limited and the principal legislation under which it operates is the Act and regulations made thereunder. The registered office of the Company is situated at 85 Elsenham Street, London SW18 5NX.

#### 3. Share Capital of the Company

- 3.1 The Company was incorporated with an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1.00 each of which two were issued fully paid. On 11 April 2000 each of the ordinary shares of £1.00 each was subdivided into ten ordinary shares of 10p each. On 11 April 2000 the authorised share capital of the Company was increased to £10,000,000 by the creation of an additional 99,500,000 ordinary shares of 10p each.
- 3.2 The following is a summary of the changes in the issued share capital of the Company since incorporation:
  - 3.2.1 on 11 April 2000 the Company issued 32,899,980 ordinary shares of 10p each, fully paid;
  - 3.2.2 on 29 June 2000 the Company issued 2,870,990 ordinary shares of 10p each, fully paid;
  - 3.2.3 on 18 June 2001 the Company issued 1,441,369 ordinary shares of 10p each, fully paid;
  - 3.2.4 on 9 July 2001 the Company issued 72,577 ordinary shares of 10p each, fully paid;
  - 3.2.5 on 17 June 2002 the Company issued 2,498,883 ordinary shares of 10p each, fully paid;
  - 3.2.6 on 4 April 2003 the Company issued 5,340,500 ordinary shares of 10p each fully paid;
  - 3.2.7 on 17 April 2003 the Company issued 39,625,001 ordinary shares of 10p each, fully paid;
  - 3.2.8 on 9 May 2003 the Company issued 1,529,500 ordinary shares of 10p each, fully paid;
  - 3.2.9 on 28 November 2003 the Company issued 176,820 ordinary shares of 10p each, fully paid;
  - 3.2.10 on 20 February 2004 the Company issued 300,000 "B" ordinary shares of £1.00 to GHW Group plc each fully paid;
  - 3.2.11 by special resolutions dated 6 April 2004 each of the then issued ordinary shares of 10p was converted and sub-divided into 9 deferred shares of 1p each and one Ordinary Share and each unissued ordinary share of 10p was sub-divided into 10 Ordinary Shares;
  - 3.2.12 on 6 April 2004, the Directors were authorised for the purposes of section 80 of the Act to allot Ordinary Shares up to an aggregate nominal value of £1,354,436 and to allot B ordinary shares up to an aggregate nominal value of £700,000. The Directors were further authorised to allot such shares as if section 89 of the Act did not apply to such allotment, such authorities to expire at the next Annual General Meeting of the Company to be held in 2005;
  - 3.2.13 on 6 April 2004 the Company issued 1,428,572 Ordinary Shares each fully paid to GHW Group plc;

- 3.2.14 on 20 April 2004 the Company issued 3,500 “B” ordinary shares to GHW Group plc each fully paid;
- 3.2.15 on 28 June 2004 the Company issued a further 1,428,572 Ordinary Shares each fully paid to GHW Group plc; and
- 3.2.16 on 3 August 2004 the Company issued 1,428,572 Ordinary Shares each fully paid to GHW Group plc.
- 3.3 By special resolution dated 23 November 2004 it was resolved that each B (non-voting) share of £1.00 each be converted and sub-divided into one hundred deferred shares of 1p each having the rights set out in the Articles of Association. It was further resolved that, subject to the confirmation of the court, the share capital of the Company be reduced by cancelling the deferred shares.
- 3.4 The Placing Shares will rank in full for all dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.
- 3.5 Save as disclosed in this Part V, no share or loan capital of the Company is under option or has been agreed conditionally or unconditionally to be put under option.
- 3.6 The existing issued Ordinary Shares are, and the Placing Shares will be, in registered form. Otherwise than pursuant to the Placing, none of the Ordinary Shares or the Placing Shares have been sold or are available in whole or in part to the public in conjunction with the application for Admission.
- 3.7 The amount payable on application and allotment of each Placing Share is 2.25p, of which 1.25p is payable by way of premium.
- 3.8 The authorised and issued share capital of the Company immediately prior to and following Admission is and will be as follows:

<i>Class of Share</i>	<i>Prior to Admission</i>			
	<i>Authorised Share Capital</i>		<i>Issued Share Capital</i>	
	<i>Nominal value</i>	<i>Number of shares</i>	<i>Nominal value</i>	<i>Number of shares</i>
Ordinary Shares of 1p each	2,218,992	221,899,240	907,413	90,741,356
Deferred shares of 1p each	8,084,507	808,450,760	8,084,507	808,450,760
‘B’ ordinary shares of £1.00 each	696,500	696,500	Nil	Nil

  

<i>Class of Share</i>	<i>Immediately following Admission</i>			
	<i>Authorised Share Capital</i>		<i>Issued Share Capital</i>	
	<i>Nominal value</i>	<i>Number of shares</i>	<i>Nominal value</i>	<i>Number of shares</i>
Ordinary Shares of 1p each	2,218,992	221,899,240	1,574,080	157,408,023
Deferred shares of 1p each	8,084,507	808,450,760	8,084,507	808,450,760
‘B’ ordinary shares of £1.00 each	696,500	696,500	Nil	Nil

The Company has adopted the Share Option Scheme referred to in paragraph 6 of this Part V. It is expected that options will be granted under the Share Option Scheme equivalent to a maximum of 10 per cent. of the Ordinary Shares in issue from time to time.

- 3.9 Save as disclosed in the foregoing sub-paragraphs of this paragraph 3 and the remainder of this Part V:
- 3.9.1 there has been no change in the amount of the issued share or loan capital of the Company since its incorporation;
- 3.9.2 other than upon due exercise of the Options and the exercise of options under the Share Option Scheme referred to in paragraph 6 of this Part V and in respect of the Placing Shares, there is no present intention to issue any of the authorised but unissued share capital of the Company.



3.10 66,666,667 Ordinary Shares are to be issued pursuant to the Placing.

3.11 Apart from the allotments referred to in paragraph 3.2 of this Part V, since incorporation, no capital of the Company has been allotted for cash or consideration other than cash.

#### **4. Memorandum and Articles of Association**

The Memorandum of Association of the Company provides that the Company's principal objects include carrying on business as a holding company and a general commercial company. The objects of the Company are set out in Clause 4 of the Memorandum of Association.

The Articles of Association of the Company adopted by special resolution on 23 November 2004 ("Articles") contain provisions, *inter alia*, to the following effect:

##### **4.1 Voting rights**

4.1.1 Members shall (subject to certain provisions) have the right to receive notice of, to attend and to vote at all general meetings of the Company. Save as otherwise provided in the Articles, on a show of hands each holder of shares present in person and entitled to vote shall have one vote and upon a poll each such holder who is present in person or by proxy and entitled to vote shall have one vote in respect of every share held by him.

4.1.2 No member shall be entitled to vote at any general meeting if any call or other sum presently payable by him in respect of shares remains unpaid or if a member has been served by the Directors with a direction notice in the manner described in sub-paragraph 4.2.

##### **4.2 Restrictions on shares**

If a member or any person appearing to be interested in shares in the Company has been duly served with a notice pursuant to section 212 of the Act and is in default in supplying to the Company information thereby required within a prescribed period after the service of such notice, the Directors may serve on such member or on any such person a notice (a "direction notice") in respect of the shares in relation to which the default occurred ("default shares") directing that the member shall not be entitled to vote at any general meeting or class meeting of the Company. Where the default shares represent at least 0.25 per cent. of the shares, the direction notice may in addition direct that any dividend or other money which would otherwise be payable on such shares shall be retained by the Company without liability to pay interest and no transfer of any of the shares held by the member shall be registered (save as required by the Uncertificated Securities Regulations 2001 (the "Regulations")) unless the member is not himself in default in supplying the information requested and the transfer is part only of the member's holding and is accompanied by a certificate given by the member in a form satisfactory to the Directors to the effect that, after due and careful enquiry, the member is satisfied that no person in default is interested in any shares subject to the transfer or the transfer is an approved transfer. The prescribed period referred to above is 42 days from the date of service of the notice under section 212 where the default shares represent at least 0.25 per cent. of the class of shares concerned and 28 days in all other cases.

##### **4.3 Variation of class rights and alteration of capital**

4.3.1 If, at any time, the share capital of the Company is divided into different classes of shares, the rights attached to any class of shares may, subject to the Act and any other act relating to companies (the "Statutes"), be modified, abrogated or varied either with the consent in writing of the holders of three fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting, the necessary quorum at any such meeting other than an adjourned meeting shall be two persons holding or representing by proxy at least one-third in nominal shares of the class or his proxy. Any holder of shares of the relevant class present in person or by proxy may demand a poll upon which every holder of shares of that class shall be entitled to one vote for every such share held by him. The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of such shares or by the terms upon which such shares are for the time being held, be deemed not to be modified, abrogated or varied by the creation or issue of further shares ranking *pari passu* therewith.

- 4.3.2 The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, sub-divide its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person.
- 4.3.3 Subject to any consent required by law, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account.
- 4.3.4 Subject to the provisions of the Act and the Articles, all unissued shares of the Company are at the disposal of the Directors.
- 4.3.5 Subject to the provisions of the Statutes, any shares may be issued on terms that they are redeemed or liable to be redeemed at the option of the Company or the shareholders on the terms and in the manner provided for by the Articles.
- 4.3.6 Subject to the provisions of the Act, the Company may purchase its own shares (including any redeemable shares) provided that the Company shall not purchase its own shares if there are outstanding any convertible shares which remain capable of being converted, unless such purchase has been sanctioned by an extraordinary resolution passed at a separate meeting of the holders of each class of such convertible shares.

#### 4.4 *Transfer of shares*

- 4.4.1 A shareholder may transfer any of his shares by an instrument of transfer in writing in any usual form or in another form approved by the Directors or, without a written instrument (subject to the shares becoming a participating security for the purposes of the Regulations), through CREST in accordance with the Regulations. The transferor will remain the holder of the share transferred until the name of the transferee is entered in the Company's register of members in respect of it.
- 4.4.2 The Directors may refuse to register a transfer of a share which is in respect of a partly paid share (provided that the discretion for such refusal may not be exercised in such way as to prevent dealings in the shares of that class from taking place on an open and proper basis), is in favour of more than four transferees, is not duly stamped (if required) or is not delivered for registration with the appropriate evidence of the transferor's title to the Company's registered office or such other place as the Directors may decide.
- 4.4.3 The Directors are required to register a transfer of an uncertificated share (a share in CREST) in accordance with the Regulations.
- 4.4.4 If the Directors refuse to register a share transfer, the Board must send notice of the refusal to the transferee within two months following the delivery of the transfer to the Company. No fee is chargeable by the Company for the registration of a share transfer. The registration of share transfers may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Directors may decide.
- 4.4.5 there are no rights of pre-emption under the Articles in respect of transfers of Ordinary Shares.

#### 4.5 *Borrowing powers*

- 4.5.1 The Directors may, save as the Articles otherwise provide, exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital, or any part thereof, and, subject to the provisions of the Statutes and the Articles, to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.
- 4.5.2 The 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 (so far, as regards subsidiary undertakings, as by such exercise they can secure) that the aggregate amount for the time being remaining outstanding of all monies borrowed by the Company and any such subsidiary undertakings (in this sub-paragraph, the "Group") and for the time being owing to persons outside the Group shall not at any time, without the previous sanction of an ordinary resolution of the Company in general meeting, exceed a sum equal to three times the aggregate of:
  - (a) the amount paid up on the issued share capital of the Company; and

- (b) the total of the capital and revenue reserves of the Group (including any share premium account, capital redemption reserve and credit balance on the profit and loss account) all as shown in the latest audited and consolidated balance sheet of the Group.

#### 4.6 *Dividends and distributions on liquidation to shareholders*

- 4.6.1 The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors. Subject to any priority, preference or special rights, all dividends shall be declared and paid according to the amounts paid up on shares and shall be apportioned and paid proportionately to the amounts paid up on shares during any portion of the period in respect of which the dividend is paid.
- 4.6.2 The Directors may pay such interim dividends as they think fit and may pay the fixed dividends payable on any shares of the Company half yearly or otherwise on fixed dates.
- 4.6.3 No dividend or interim dividend shall be paid otherwise than in accordance with the provisions of the Statutes.
- 4.6.4 On a liquidation, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Statutes, divide amongst the members *in specie* or in kind the whole or any part of the assets of the Company and may, for such purpose, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out.
- 4.6.5 The Directors may, with the sanction of an ordinary resolution of the Company in general meeting, offer shareholders the right to elect to receive shares credited as fully paid or debentures instead of cash in respect of the whole or part of any dividend.
- 4.6.6 Any dividend unclaimed for a period of 12 years after it became due for payment shall be forfeited and shall revert to the Company.
- 4.6.7 There is no fixed date on which an entitlement to a dividend arises.

#### 4.7 *Directors*

- 4.7.1 The business of the Company shall be managed by the Directors, who may exercise all such powers of the Company as are not, by the Act or by the Articles, required to be exercised by the Company in general meeting, subject nevertheless to the provisions of the Articles of the Act, and to such directions (being not inconsistent with any provisions of the Articles or of the Act) as may be given by the Company in general meeting.
- 4.7.2 Unless and until the Company in general meeting shall otherwise determine, the number of Directors shall not be more than ten nor less than two. A Director shall not be required to hold any shares in the capital of the Company.
- 4.7.3 No Director shall be disqualified by his office from entering into any contract, arrangement, transaction or proposal with the Company either with regard to his tenure of any other office or place of profit or acting in a professional capacity for the Company or as a vendor, purchaser or otherwise. Subject to the provisions of the Act and save as therein provided, no such contract, arrangement, transaction or proposal entered into by or on behalf of the Company in which any Director or person connected with him is in any way interested, whether directly or indirectly, shall be liable to be avoided, nor shall any Director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the Company for any profit or other benefit realised by any such contract, arrangement, transaction or proposal by reason of such Director holding that office or of the fiduciary relationship thereby established, but such Director shall declare the nature of his interest in accordance with the Statutes.
- 4.7.4 A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:
  - (a) the giving of any security, guarantee or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company;

- (b) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares in or debentures or other securities of or by the Company for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- (d) any contract, arrangement, transaction or other proposal concerning any other body corporate in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he has disclosed the nature of that interest to the Board in accordance with section 317 of the Act;
- (e) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a superannuation fund or retirements, death or disability benefit scheme under which he may benefit and which relates to both employees and Directors and which does not accord to any Director as such any privilege or advantage not generally accorded to the employees to whom such scheme or fund relates;
- (f) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of any scheme for enabling employees including full-time Directors and/or any subsidiary to acquire shares of the Company or any arrangement for the benefit of employees of the Company under which the Director benefits in a similar manner to employees and which does not accord to any Director as such any privilege or advantage not generally accorded to the employees to whom such scheme or arrangement relates; and
- (g) any proposal concerning any insurance which the Company is to purchase and/or maintain for the benefit of the Directors or persons who include the Directors.

4.7.5 If any question shall arise at any meeting as to the materiality of a Director's interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the Chairman of the meeting and his ruling in relation to any other Director shall be final and conclusive except in a case where the nature or extent of the interests of the Director concerned have not been fairly disclosed.

4.7.6 The Directors shall be paid out of the funds of the Company for their services subject to such limit (if any) as the Company in general meeting may from time to time determine). Such remuneration shall be divided between the Directors as they shall agree or, failing agreement, equally.

4.7.7 Subject to the provisions of the Statutes, the Directors may from time to time appoint one or more of their body to such executive office as they may decide. His appointment shall be automatically determined if he ceases from any cause to be a Director, without prejudice to any claim for damages such Director may have for breach of any service contract between him and the Company. The salary or remuneration of any executive Director shall, subject as provided in any contract, be such as the Directors may from time to time determine, and may either be a fixed sum of money, or may altogether or in part be governed by the business done or profits made, and may include the making of provisions for the payment to him, his widow or other dependants, of a pension on retirement from the office or employment to which he is appointed and for the participation in pension and life assurance and other benefits.

4.7.8 The Directors may entrust to and confer upon a managing director or an executive Director any of the powers and discretions exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers and discretions and may from time to time revoke, withdraw, alter or vary all or any of such powers or discretions.

4.7.9 Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any body corporate in which the Company is interested, such proposals may be divided and considered in relation to each Director separately and in such cases each of the Directors concerned (subject to the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

- 4.7.10 Subject to the provisions of the Statutes, the Company may, by ordinary resolution, suspend or relax certain of these provisions to any extent or ratify any contract, arrangement or transaction not duly authorised by reason of a contravention of those provisions.
- 4.7.11 Section 293 of the Act (which regulates the appointment and continuation in office of Directors who have attained the age of 70) does not apply to the Company.
- 4.7.12 Each Director shall have the power at any time to appoint as an alternate Director either (i) another Director or (ii) any other person approved for that purpose by a resolution of the Directors, and at any time to terminate such appointment.
- 4.7.13 At each annual general meeting of the Company, one third of the Directors shall retire from office. The Directors to retire will be those who have been longest in office, or in the case of those who were appointed or re-appointed on the same day, will be (unless they otherwise agree) determined by lot.

## 5. Interests of Directors and Others

- (a) The directorships (other than of the Company) and partnerships held by each of the Directors as at the date of this document and in the past five years preceding the date of this document are as follows:

### **Richard Taylor**

#### *Present directorships*

Barnes Kavelle Limited  
 Froebelian School — (Horsforth) Limited (the)  
 Kornhill Limited  
 LGHS (1995) Limited  
 QuadraNet plc\*  
 Qconnectis Group Limited  
 Qconnectis Technologies Limited

#### *Past directorships*

Coldraw Services Limited  
 Dockfirst Limited  
 Donegalway Restaurants Limited  
 Forsyth plc  
 Forsyth Business Centres plc  
 Harry Ramsden's public limited company  
 Harry Ramsden's (Restaurant) Limited  
 Merryweathers Limited  
 Merryweathers Group Limited  
 Ramsden (White Cross)  
 Thames Valley Restaurants Limited  
 Welbourne Caterers Limited  
 Welbourne Ross plc  
 Welbrooke Limited

### **Michael Tapia**

#### *Present directorships*

Now! Networks Limited  
 Qconnectis Technologies Limited  
 Qconnectis Group Limited  
 Web Orator.com Limited

#### *Past directorships*

### **Percival Albuquerque**

#### *Present directorships*

P A Associates (UK) Limited

#### *Past directorships*

\*Mr Taylor was a non-executive director of QuadraNet plc when it became subject to an administration order on 26 July 2002.

- (b) Save as disclosed herein none of the Directors has:
- (i) any unspent convictions relating to indictable offences;
  - (ii) had a bankruptcy order made against him or entered into any individual voluntary arrangements with his creditors;
  - (iii) been a director of a company or limited liability partnership which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or entered into a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company at the time of or, within the twelve months preceding, such events;
  - (iv) been a partner of a partnership which has been placed in compulsory liquidation or administration or which has entered into a partnership voluntary arrangement whilst he was a partner of that firm at the time of, or within twelve months preceding, such events;

- (v) had any asset belonging to him which has been the subject of a receivership or been a partner of a partnership whose assets have been placed in receivership whilst he was a partner at the time of, or within twelve months preceding, such receivership; or
- (vi) been publicly criticised by any statutory or regulatory authority (including any recognised professional body) or ever been disqualified by a court from acting as a director of a company or limited liability partnerships or from acting in the management or conduct of the affairs of any company or limited liability partnerships.
- (c) As at the date of this document, the interests (all of which are beneficial unless otherwise stated) of the Directors and persons connected with the Directors within the meaning of section 346 of the Act in the share capital of the Company as required to be notified to the Company pursuant to section 324 or section 328 of the Act and the existence of which is known to or could with reasonable due diligence be ascertained by any Director as at the date of this document and as expected to be immediately following Admission are as follows:

	<i>Current</i>		<i>Immediately following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital held</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital held</i>
Richard Taylor	1,450,403	1.60%	1,450,403	0.92%
Michael Tapia	20,528,776*	22.62%	20,528,776	13.04%
Percival Albuquerque	nil	nil%	nil	nil%

\* of these, 1,115,694 are owned by the wife of Michael Tapia.

Save as disclosed above none of the Directors or persons connected with them (within the meaning of section 346 of the Act) has any interest whether beneficial or non-beneficial in any share or loan capital of the Company.

- (d) Michael Tapia entered into a service agreement with the Company dated 18 February 2005 which provides for him to act as Chief Executive Officer at a salary of £50,000 per annum. The employment of the executive is terminable by 12 months' notice from either party. Mr Tapia is also entitled to receive a car allowance, 25 working days holiday in each year and pension contributions.
- (e) The services of Richard Taylor and Percival Albuquerque are provided under non-executive Directors' letters of appointment dated 18 February 2005. Each appointment is terminable on twelve and six months' notice from either side and fees of £15,000 and £7,500 per annum are payable respectively.
- (f) There are no loans made or guarantees granted or provided by any member of the Group to or for the benefit of any Director which are outstanding.
- (g) It is estimated that the aggregate emoluments of the Directors (including benefits in kind and pension contributions) in the current financial year ending 30 June 2005 will amount to £72,500 under arrangements in force at the date hereof. The aggregate emoluments of the Directors (including benefits in kind and pension contributions) in the financial period ended 30 June 2004 was £48,750.
- (h) Save as referred to in paragraphs (d) and (e) above, there are no service agreements in existence between any of the Directors and the Company which cannot be determined by the Company without payment of compensation (other than statutory compensation) within one year. Other than as set out above, there have been no changes to Directors' service agreements in the last six months.
- (i) Save as disclosed above and elsewhere in this document, there is no contract or arrangement to which the Company or any company within the Group is a party and which any Director is materially interested and which is significant in relation to the business of the Company and no amount or benefit has been or is intended to be paid or given to any promoter of the Company.

#### *Other interests*

- (j) As at 17 February 2005 (being the latest practicable date prior to the date hereof) and as anticipated immediately following Admission other than interests disclosed in paragraph (c) above and save as set out below the Directors are not aware of any persons directly or indirectly, jointly or severally, who exercise or could exercise control over the Company or who is interested (within the meaning of Part VI of the Act), directly or indirectly, jointly or severally, in three per cent. or more of the issued share capital of the Company:

	<i>Current</i>		<i>As at date of Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital held</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital held</i>
<i>Shareholder</i>				
Pershing Keen Nominees Limited	26,145,100	28.81%	26,145,100	16.61%
WB Nominees Limited*	8,828,214	9.73%	8,828,214	5.61%
ALASIA Trading Inc	7,147,138	7.88%	7,147,138	4.54%
Spectra AS	4,902,361	5.40%	4,902,361	3.11%
Hoodless Brennan & Partners Plc	—	—	29,188,885	18.54%
City Equities (Nominees) Limited	—	—	10,000,000	6.35%
Wills & Co	—	—	7,555,556	4.80%
Brewin Nominees Limited	—	—	6,000,001	3.81%
NCL Nominees Limited	—	—	5,555,556	3.53%

\* W B Nominees Limited holds these shares on behalf of GHW Group plc.

## 6. Share Option Scheme

On 11 February 2005 the Company adopted the Qconnectis plc Enterprise Management Incentive Share Option Scheme 2005 (“the Share Option Scheme”). The principal terms of this are summarised as follows:

### 6.1 Eligibility

The Company will be able to choose employees to participate in the Share Option Scheme at any given time, each of whom must work at least 25 hours per week for the Company or its subsidiaries or, if less than 25 hours per week, for at least 75 per cent. of his or her working time. Qualifying subsidiaries are those subsidiaries over which the Company has at least 75 per cent. direct or indirect ownership and voting control. Any employee who holds a material interest (30 per cent. or more) in the Company will not be eligible to participate. Participation will be at the discretion of the Board, which may from time to time offer to participants the opportunity to enter into option agreements.

### 6.2 Option agreements

Options may be granted under the Share Option Scheme by the employee entering into a written agreement with the Company. Options may only be granted either in the period commencing on the date on which the Share Option Scheme was adopted by the Company and ending 42 days thereafter, or on the day following the announcement of the interim or final results of the Company for any financial year or part financial year and ending 42 days thereafter, or on the day in which the person to whom it is granted first becomes eligible and ending 14 days thereafter. No options shall be granted after the tenth anniversary of the date on which the Share Option Scheme was adopted by the Company.

### 6.3 Acquisition price

Generally, the price at which participants may subscribe for shares pursuant to the Share Option Scheme will be at their market value at the time options are granted to them as agreed with the Inland Revenue, except in exceptional circumstances where the Board may agree to grant options at a discount to current market value.

### 6.4 Exercise of options

- (i) The Board will determine the earliest possible exercise date and whether any performance or other conditions must first be satisfied before the option is exercisable and the terms will be set out in the agreement with the employee. Once it becomes exercisable, the option must be exercised before the tenth anniversary from the date on which it was granted.
- (ii) Whilst the options will lapse immediately upon the holder ceasing to be employed by the Company or a qualifying subsidiary, in certain circumstances (such as cessation due to death, injury, disability, wrongful dismissal, unfair dismissal, retirement or disability, the option holder’s employing or contracting company ceasing to be a qualified subsidiary, or as a result of the transfer of the option holder’s services to a company which is not a qualifying subsidiary) the option may nevertheless be exercised up to 12 months after such cessation, and thereafter the option will lapse.

- (iii) Options may be exercised during the six month period following the takeover, amalgamation, reconstruction or voluntary winding up of the Company and thereafter they will lapse.

#### 6.5 *Limits*

- (i) No individual participant may hold unexercised options to the extent that the aggregate market value of the shares as at the respective dates of grant of the options exceeds £100,000.
- (ii) No options shall be granted if as a consequence the aggregate market value of shares under the options as at the respective date of grant of each option would exceed £3 million.
- (iii) The aggregate number of shares in respect of which options may be granted taken together with options already granted under the Share Option Scheme, or any other share option or share incentive scheme, whether approved or unapproved by the Inland Revenue, adopted by the Company, in any 10 year rolling period, shall not exceed 10 per cent. of the issued Ordinary Share capital of the Company as at the date of grant.

#### 6.6 *Performance conditions*

The exercise of the options may be subject to performance conditions set by the remuneration committee of the Company from time to time.

#### 6.7 *Variation of capital*

- (i) In the event of any variation or increase in the Company's share capital by way of rights issue, capitalisation, consolidation, sub-division or reduction, the number of shares subject to any option under the Share Option Scheme and the exercise price may be adjusted in such a way as the auditors of the Company certify in writing to be fair and reasonable.
- (ii) No adjustment may increase the aggregate option price nor reduce the exercise price below the nominal value of a share.

#### 6.8 *Alterations to the scheme*

The Board has a limited discretion to amend the Share Option Scheme from time to time in any manner subject to any such alternation not contravening legislation relating to the Share Option Scheme, or not materially altering any of the subsisting rights of the option holder in relation to any option granted under the Share Option Scheme.

#### 6.9 *Termination*

The Share Option Scheme may be terminated at any time by resolution of the Board in which event no further options shall be granted. However, the rules of the Share Option Scheme shall continue in full force and effect in relation to the options already granted.

#### 6.10 *Options*

On 18 February 2005, the Company (conditional upon Admission) granted the following Options under the Share Option Scheme:

<i>Name</i>	<i>Number of Ordinary Shares under Option</i>	<i>Percentage of issued share capital</i>
Michael Tapia	4,444,444	2.82%
Stephen Francis	222,222	0.14%
Michael Kivell	222,222	0.14%

#### 6.11 *Other Options*

Pursuant to agreements (each an "Option Agreement") entered into on 18 February 2005 between the Company and the following persons (each a "Recipient"), the Company has granted the following options:

<i>Name of Recipient</i>	<i>Number of Ordinary Shares under Option</i>	<i>Percentage of issued share capital</i>
Richard Taylor	3,333,333	2.12%
Percival Albuquerque	222,222	0.14%
John Victor Churchill	222,222	0.14%
Anthony Jon Gadsden	222,222	0.14%



Exercise and grant are conditional on Admission and, exercise shall only be permitted on or after the first anniversary of Admission or date of grant until the tenth anniversary of the date of Admission.

The Option Price (as defined in each Option Agreement) is 2.25p payable on exercise. Similar provisions to those contained in the Share Option Scheme apply in relation to early exercise, adjustment and lapse.

## **7. Material Contracts**

The following contracts have been entered into by the Group, otherwise than in the ordinary course of business, during the two years preceding the date of this document, and are or may be material:

### *7.1 Share Sale and Purchase Agreement*

Pursuant to a Share Sale and Purchase Agreement dated 26 February 2003 the Company purchased the entire issued share capital of Qconnectis Group Limited for a consideration of £3,962,500 satisfied by the allotment and issue to the sellers of Qconnectis Group Limited (the "Sellers") of 39,625,001 ordinary shares of 10p each in the capital of the Company.

Each of the Sellers undertook with the Company that they would not, and would procure so far as they are able in respect of persons connected with them, (without the Company's prior written consent) dispose of any Shares allotted to them within two years of completion of this acquisition (such date being 17 April 2003). Each of the Sellers further undertook to consult with the Company prior to disposing of any of the consideration shares allotted to them within the one year period immediately following the two year period referred to above with a view to ensuring an orderly market for such shares.

### *7.2 Nominated Adviser Agreement*

On 23 October 2004 the Company entered into an agreement with Grant Thornton Corporate Finance pursuant to which Grant Thornton Corporate Finance agreed to act as the Company's nominated adviser and to advise and assist the Company in respect of the AIM Rules. The agreement is terminable by either party on the giving to the other of thirty days' prior written notice. The agreement contains indemnities from the Company to Grant Thornton Corporate Finance.

### *7.3 Broker Agreement*

On 30 November 2004 the Company entered into an agreement with HB-corporate pursuant to which HB-corporate agreed to act as broker to the Company for the purposes of the AIM Rules for an annual fee of £12,000 plus VAT payable quarterly in advance. The Broker Agreement is for an initial period of 12 months from the date of the Broker Agreement and thereafter terminable by either party giving to the other not less than 90 days' prior written notice.

### *7.4 Broker Option Agreement*

On 18 February 2005 the Company entered into an agreement with HB-corporate under which, subject to and conditional upon Admission, the Company granted to HB-corporate an option to subscribe at the Placing Price for 4,722,241 Ordinary Shares representing 3 per cent. of the Enlarged Issued Share Capital. The options are exercisable by HB-corporate at any time from Admission for a period of five years.

### *7.5 Placing Agreement*

On 18 February 2005, the Company entered into a conditional agreement with HB-corporate and the Directors pursuant to which HB-corporate agreed as agent for the Company to use its reasonable endeavours to procure places for 66,666,667 Placing Shares at the Placing Price. The Placing is not being underwritten. The Placing Agreement is conditional upon, *inter alia*, Admission occurring on or before 24 February 2005 (or such later date as the Company, and HB-corporate may agree), being not later than 31 March 2005. Under this agreement and subject to Admission, the Company agreed to pay to HB-corporate (together with VAT where applicable) a broker fee of £25,000, a placing commission of 5 per cent. on the aggregate value of the Placing Shares at the Placing Price, an option over 3 per cent. of the Enlarged Issued Share Capital and all professional fees incurred by HB-corporate in connection with the Placing.

The Placing Agreement contains warranties given by the Company and the Directors in favour of HB-corporate as to, *inter alia*, the accuracy of information contained in this document and other matters relating to the Company, the Group and its business. In addition, the Company has given an indemnity to HB-corporate in respect of certain liabilities it may incur in respect of the Placing.

HB-corporate is entitled to terminate the Placing Agreement in specified circumstances prior to Admission, principally in the event of a material breach of the Placing Agreement or any of the warranties contained in it.

The Directors have severally undertaken to the Company and to HB-corporate not to dispose of the Ordinary Shares held by each of them at or following Admission at any time up to the first anniversary of Admission.

#### 7.6 *PAA Agreement*

Pursuant to an agreement (the “PAA Agreement”) between the Company and P.A. Associates (UK) Limited (“PAA”) (a company owned and controlled by Percival Albuquerque and his wife) dated 26 September 2003 (as amended on 23 July 2004), PAA has agreed to provide certain sales and related services to the Company and advice in relation to the general business development of the Company. The PAA Agreement is terminable by either party on thirty days’ prior written notice.

Fees payable to PAA comprise a daily rate based on an average of 12 days per month at £375.00 per day plus VAT and a commission of 5 per cent. of total sales in the three years following the date of the PAA Agreement, in the latter case only where PAA has assisted in the identification and/or securing and/or management of clients. Pursuant to a letter dated 18 February 2005 PAA has agreed to receive cash only for services provided and to be provided.

### **8. Litigation**

No legal or arbitration proceedings are active, pending or threatened against, or being brought by, the Company or any member of its Group which are having, have had or may have a significant effect on the Company’s financial position.

### **9. Group Structure**

At the date of this document the Company has four wholly owned subsidiaries details of which are set out below.

- 9.1 Web Orator.Com Limited (Incorporated in England & Wales with registered number 3923142).
- 9.2 Qconnectis Group Limited (incorporated in England & Wales with registered number 3978642).
- 9.3 Qconnectis Technologies Limited (incorporated in England & Wales with registered number 3861324).
- 9.4 Now! Networks Limited (incorporated in England & Wales with registered number 3634838).

### **10. Taxation**

#### 10.1 *General*

The following paragraphs include advice received by the Directors about the current taxation position of non-corporate shareholders who are resident or ordinarily resident in the UK for taxation purposes in respect of their holdings of Ordinary Shares and who hold their Ordinary Shares as investments. The statements below are intended only as a general guide and do not constitute advice to any shareholder on his or her personal tax position and may not apply to certain classes of investor (such as dealers, charities or pension providers). The comments are based on current legislation and Inland Revenue practice. Levels of taxation may change from time to time. Any investor who is in any doubt as to his or her tax position, or who may be subject to tax in any other jurisdiction, should consult his or her professional adviser.

#### 10.2 *Taxation of Dividends*

A dividend paid to a non-corporate shareholder is treated as being paid with a notional non-repayable tax credit equal to one ninth of the net dividend. A dividend of £90 would therefore have an accompanying tax credit of £10. Individual shareholders whose income is within the starting, lower or basic rate bands will be liable to income tax at 10 per cent. on the aggregate of the dividend and the tax credit. The tax credit will therefore satisfy their income tax liability on the dividends. Individual shareholders who are liable to income tax at the higher rate of tax will be charged to tax at 32.5 per cent. on the aggregate of the dividend and the tax credit. The 10 per cent. tax credit is set against the income tax liability of 32.5 per cent., leaving an additional income tax liability of 22.5 per cent. This additional 22.5 per cent., tax liability equates to an effective rate of income tax of 25 per cent. on the dividend received.

Persons who are not resident in the UK should consult their own tax advisers on whether they can benefit from all or part of any tax credit and what relief or credit is available in the jurisdiction in which they are resident.

### 10.3 *Stamp duty and stamp duty reserve tax*

Generally, no stamp duty or stamp duty reserve tax (“SDRT”) will be payable by subscribers on the issue to them of Ordinary Shares pursuant to the Placing.

Any subsequent transfer or sale of Ordinary Shares will generally give rise to a liability on the purchaser to *ad valorem* stamp duty currently at a rate equivalent to £5 for every £1,000 or part of £1,000 of the consideration paid. An unconditional agreement to transfer such shares will be subject to SDRT at a rate of 0.5 per cent., of the consideration paid. However, when an instrument of transfer is executed and duly stamped before the expiry of a period of six years beginning with the date of that agreement, a claim can normally be made to cancel or obtain repayment of the SDRT liability.

Special rules apply to the agreements made by market makers in the ordinary course of their business, broker-dealers and certain other persons. Agreements to the transfer of Ordinary Shares to charities will not give rise to SDRT or stamp duty.

### 10.4 *EIS (Enterprise Investment Scheme)*

To obtain the tax reliefs described below it is necessary to subscribe for ordinary shares in a qualifying company and claim the relief. The summary below gives only a brief outline of how the tax reliefs are given assuming the investor is a 40 per cent., tax payer. It does not set out all the rules which must be met for periods of between three and five years by the Company and the investor. The tax reliefs will only be relevant to non-corporate investors who pay income tax and/or wish to defer a capital gain. The summary is not a substitute for the investor obtaining professional advice applying for Shares.

The Company has received provisional tax clearance confirming that it will qualify for the taxation advantages offered under the EIS.

EIS relief has four elements:

#### 10.4.1 *Income Tax Relief*

Individuals can obtain income tax relief on the amount subscribed for Shares (up to £200,000 in each tax year) in one or more qualifying companies provided they are not connected with the issuing company. Husbands and wives can each subscribe up to £200,000. To calculate the relief, the lower rate of tax (currently 20 per cent.) is multiplied by the amount subscribed. The relief is given against, and limited to, the individual’s income tax liability for the tax year in which the Shares are issued unless to individual makes a carry back claim (see 10.4.9).

#### 10.4.2 *Exemption from Capital Gains Tax*

Any capital gains realised on disposal after the Three Year Period of the Shares on which EIS income tax relief has been given and not withdrawn, are tax-free.

#### 10.4.3 *Loss Relief against Income or Gains*

Tax relief is available where there is a loss on a disposal at any time on the Shares on which EIS income tax relief (see 1 above) or CGT deferral relief (see 4 below) has been given. The amount of the loss (after taking account of any income tax relief initially obtained) can be set against the individual’s gains or taxable income in the tax year in which disposal occurs.

#### 10.4.4 *CGT Deferral Relief*

To the extent which a UK resident investor (including individuals and certain Trustees) subscribes for qualifying shares, he can claim to defer paying tax on all or part of a chargeable gain. The gain may have arisen on the disposal of any asset or a previously deferred gain may have become chargeable to tax. Although under current legislation there is a limit of £200,000 for income tax relief, there is no limit on the amount of gain which can be deferred.

The subscription must be made and the shares issued within one year before or three years after the date of the disposal which gives rise to the gain or the date when a previously deferred gain crystallizes. The gain is deferred until there is a chargeable event such as a disposal of shares or an earlier breach of the EIS rules.

#### 10.4.5 Venture Capital Scheme Relief

Venture Capital Scheme Relief may be available to qualifying investors subscribing for shares in a qualifying Venture Capital Trust that holds shares in qualifying unquoted trading companies.

#### 10.4.6 Inheritance Tax (IHT) Business Property Relief

An investment in an EIS Qualifying Company is normally treated as 'relevant business property' for the purposes of IHT where the Investment in the Investee Company has been held for two years. In this case, an IHT exemption for 100 per cent. or the value of the Investment will be obtained in the event of the death of an Investor. Please note that, if an Investor dies within the two year period and his or her spouse inherits an Investment, the holding period of both the Investor and the spouse are combined in order to determine whether the two year holding period condition has been satisfied on the death of the spouse.

#### 10.4.7 Trustees

Trustees (where under certain conditions the beneficiaries are individuals) will usually qualify for unlimited Capital Gains Deferral Relief, Loss Relief (limited to capital gains) and business property relief for IHT purposes. However, it must be remembered that neither EIS Relief nor Capital Gains Tax Exemption are available to Trustees

#### 10.4.8 Joint Investors

Applications from Joint investors are permissible, in which income tax relief is apportioned equally and CGT deferral relief is apportioned pro-rata to the amount each investor subscribes.

#### 10.4.9 EIS Carry Back Relief

Individuals may make a claim to carry back, against their income tax liability for the previous year part of the sums invested into qualifying companies in the first half of a tax year (i.e. between 6 April and 5 October inclusive) to the extent that the relief for the previous year has not been utilized. The carry back limits are 50 per cent. of the amounts subscribed, subject to a maximum of £25,000.

#### 10.4.10 Withdrawal of Relief

If the conditions for relief relating to a company cease to be satisfied during the Three Year Period, the relief will be withdrawn. Relief will also be wholly or partly withdrawn if, for example, the claimant receives value from the Company (other than insignificant value) or disposes of the shares within the Three Year Period, otherwise than to a cohabiting spouse.

Please note that this is only a condensed summary of the tax rules and should not be construed as constituting advice, which a potential investor should obtain from his or her own investment or taxation adviser before applying for Placing Shares.

### **11. Working Capital**

The Directors are of the opinion that, having made due and careful enquiry and taking into account the net proceeds of the Placing, the working capital available to the Company and the Group is sufficient for its present requirements, that is for at least twelve months from the date of Admission.

### **12. Intellectual Property**

Save as disclosed herein, the Company is not dependent on patents or other intellectual property rights, licences or particular contracts and which are of fundamental importance to the Company's business.

### **13. Miscellaneous**

- (a) The total costs and expenses payable by the Company (including commission) in connection with or incidental to the Placing and Admission excluding recoverable VAT are estimated to amount to approximately £300,000.
- (b) The financial information for the relevant accounting periods set out in the Accountant's Report in Part IV of this document concerning the Group does not constitute statutory accounts of any company within the Group within the meaning of section 240 of the Act.

(c) Minimum Amount Required to be Raised:

The minimum amount which, in the opinion of the Directors, must be raised under the Placing to provide sums required to be provided in respect of the matters specified in paragraph 21(a) to Schedule I of the POS Regulations is £1,300,000 which will be applied as set out below:

(i) Purchase of property	£Nil
(ii) Expenses of the Placing (including commissions)	£300,000
(iii) Repayment of borrowings in respect of (i) and (ii) above	£Nil
(iv) Working capital	£1,000,000

- (d) Save as disclosed in paragraph 3.2 of this Part V in respect of those shares issued to GHW Group plc, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received directly or indirectly from the Company within the twelve months preceding the date hereof or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following: fees totalling £10,000 or more; or securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or any other benefit with a value of £10,000 or more at the date of Admission.
- (e) Save as disclosed herein, there have been no exceptional factors which have influenced the Group's activities.
- (f) The Company's current accounting reference date is 30 June.
- (g) The Company has no significant investments in progress.
- (h) Mazars LLP has given and not withdrawn its written consent to the issue of this document with its name included in it and with the inclusion therein of its reports and references thereto in the form and context in which they are included for the purpose of paragraph 13(1)(g) of the POS Regulations and accepts responsibility for such report in accordance with paragraph 45(8)(b) of Schedule 1 to the POS Regs and have not become aware since the date of its report of any matter affecting the validity of such report at that date.
- (i) HB-corporate has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.
- (j) Grant Thornton Corporate Finance has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.
- (k) Grant Thornton Corporate Finance has been appointed nominated adviser to the Company. Under the AIM Rules the nominated adviser owes certain responsibilities to London Stock Exchange plc. In accordance with these rules, Grant Thornton Corporate Finance has confirmed to London Stock Exchange plc that it has satisfied itself that the Directors have received independent advice and guidance as to the nature of their responsibilities and obligations under the AIM Rules and that, to the best of its knowledge and belief, all relevant requirements of the AIM Rules (save for compliance with Regulation 9 of the POS Regulations in respect of which the nominated adviser is not required to satisfy itself) have been complied with. Grant Thornton Corporate Finance has also satisfied itself that the contents of this document have been appropriately verified. In giving its confirmation to London Stock Exchange plc, Grant Thornton Corporate Finance has not made its own enquiries except as to matters which have come to its attention and on which it considered it necessary to satisfy itself. No liability whatsoever is accepted by Grant Thornton Corporate Finance or its advisers for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which the Company and its Directors are solely responsible. Grant Thornton Corporate Finance does not regard itself as being, and is not, a "responsible person" (as that term is used in section 13 of the POS Regulations) in relation to this document.
- (l) Save as disclosed there has been no significant change in the financial or trading position of the Group since 30 June 2004 being the date to which the consolidated audited financial statements of the Group were prepared.
- (m) The period within which the placing participations may be accepted pursuant to the Placing and arrangements for the payment and holding of subscription monies pending Admission are set out in the Placing Agreement and the Placing Letters sent to prospective placees. The Placing Shares are not being offered generally and no applications have or will be accepted other than under the terms of the

Placing Agreement and the Placing Letters. All the Placing Shares have been conditionally placed. The Placing is not being guaranteed or underwritten by any person.

- (n) None of the Directors has a related financial product (as such expression is detailed in the AIM Rules) in relation to the Ordinary Shares.
- (o) Share certificates representing the Ordinary Shares to be issued pursuant to the Placing are expected to be despatched to applicants who do not wish to receive shares in uncertificated form by post at their risk within 7 days of Admission. Temporary documents of title will not be issued in connection with the Placing.

**14. Availability of this document**

Copies of this document will be available publicly and free of charge from the Company at its registered office between the hours of 9.00 a.m. and 5.00 p.m., Monday to Friday (excluding UK public holidays) for a period of not less than one month from the date of Admission.

Dated 18 February 2005

