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Application will be made for the whole of the issued and to be issued ordinary share capital of Dillistone to be admitted to trading on AIM, a market operated by London Stock Exchange plc. 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.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The whole text of this document should be read. Your particular attention is drawn to the risk factors set out in Part II of this document. The whole of this document should be read in light of those risk factors. AIM Securities are not admitted to the official list of the United Kingdom Listing Authority ("Official List"). The rules of AIM are less demanding than those of the Official List. It is expected that Admission will become effective and dealings will commence in the Ordinary Shares on 15 June 2006.

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. The Ordinary Shares are not dealt on any regulated market and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange.

This document, which comprises an admission document required by the rules of AIM, has been drawn up in accordance with the AIM Rules. This document does not contain an offer of transferable securities to the public within the meaning of section 102B to the Financial Services and Markets Act 2000 (as amended) and does not require a prospectus within the meaning of article 85 of the Financial Services and Markets Act 2000 (as amended).

The directors of Dillistone, whose names appear on page 5 of this document, under the heading "Directors, Secretary and Advisers" accept responsibility individually and collectively for the information contained in this document and compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All of the Ordinary Shares will, upon Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions declared, paid or made in respect of the Ordinary Shares after Admission.

Dillistone Group Plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 4578125)

Placing of 520,000 Ordinary Shares of 5 pence each at a price of 125 pence per Ordinary Share and Admission to trading on AIM

Nominated Adviser and Broker Rowan Dartington & Co. Limited

Share capital immediately following Admission

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Number</i>	<i>Nominal Amount</i>		<i>Number</i>	<i>Nominal Amount</i>
10,000,000	£500,000	Ordinary Shares of 5 pence each	5,400,000	£270,000

Rowan Dartington, which is authorised and regulated in the UK by the Financial Services Authority, is acting as the nominated adviser and broker to Dillistone in connection with the proposed Placing and proposed Admission and is not acting for any person other than Dillistone and will not be responsible to any person other than Dillistone for providing the protections afforded to its customers or for providing advice to any other person in connection with this document. Its responsibilities under the AIM Rules are owed solely to London Stock Exchange plc and not to the Company or to any Director or to any other person. No representation or warranty, express or implied, is made by Rowan Dartington as to any of the contents of this document and Rowan Dartington has not authorised the contents of any part of this document and accepts no liability whatsoever for the accuracy of any information or opinions contained in this document or for the omission of any material information from this document for which the Company and the Directors are solely responsible.

The Ordinary Shares have not been, nor will they be, registered under the US Securities Act of 1933 (as amended) or under any applicable securities laws of any state of the United States, 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 of America, 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 of America, 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, any of the Ordinary Shares, in respect of any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation in such jurisdiction. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No person is authorised, in connection with the Placing, to give any information or make any representation other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by the Company or Rowan Dartington or its respective directors or professional advisers. The Placing as described in this document is only being made in the United Kingdom. No Ordinary Shares have been marketed to, nor are any available for purchase in whole or in part by, the public in the United Kingdom or elsewhere in connection with the Placing. This document does not constitute an offer to sell or an invitation to any such person to subscribe for or purchase any Ordinary Shares.

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DEFINITIONS

The following words and expressions shall have the following meanings in this document unless the context otherwise requires:

“Act”	the Companies Act 1985, as amended
“Admission”	admission of the entire issued share capital of the Company (including the Placing Shares) to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	AIM, a market operated by the London Stock Exchange
“AIM Rules”	the rules for AIM companies and their nominated advisers issued by the London Stock Exchange from time to time
“Board” or “Directors”	the directors of the Company whose names are set out on page 5 of this document
“CBS”	Custom Business Systems Limited, a subsidiary of the Company
“Combined Code”	the revised principles of good governance and the code of best practice as appended to, but not forming part of, the Listing Rules of the UKLA published in July 2003 by the Financial Reporting Council
“Company” or “DGL”	Dillistone Group Plc, incorporated in England and Wales with registration number 04578125, formerly Dillistone Group Limited
“CREST”	the computerised settlement system to facilitate the transfer of title to shares in uncertificated form, operated by CRESTCo Limited
“DSL”	Dillistone Systems Limited, a wholly owned subsidiary of DGL
“DS (Australia)”	Dillistone Systems (Australia) Pty Limited, a wholly owned subsidiary of DSL
“DS (US)”	Dillistone Systems (US) Inc., a wholly owned subsidiary of DGL
“EIS Relief”	income tax relief and/or capital gains tax deferral and/or capital gains tax exemption and/or loss relief, as applicable, available under the EIS
“EIS”	the Enterprise Investment Scheme and related reliefs as detailed in Chapter III of Part IV of the Income and Corporation Taxes Act 1988 and sections 150A to 150C and schedule 5B and 5BA of the Taxation of Chargeable Gains Act 1992 (as amended)
“ERN”	Executive Recruiter News, a publication of Kennedy Information
“FILEFINDER”	a recruitment management software system, primarily designed to facilitate the process of executive search, the intellectual property in which is owned by Dillistone

“Founder Investors”	Messrs Michael Bryan, Giles Fearnley, Martin Hill and Robert Howells, each of whom owned approximately 7.14 per cent., and Jim McLaughlin, who owned approximately 21.4 per cent., of the issued ordinary share capital of Dillistone prior to Admission and the Placing
“Group” or “Dillistone”	the Company together with its four wholly owned subsidiaries details of which are set out in paragraph 3 of Part IV of this document
“HMRC”	Her Majesty’s Revenue & Customs
“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	200,000 new Ordinary Shares to be allotted and issued to Placees pursuant to the Placing
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 5 pence each in the capital of the Company
“Placees”	together the purchasers of the Sale Shares and of the New Ordinary Shares
“Placing Agreement”	the conditional agreement dated 14 June 2006 between (1) Rowan Dartington, (2) the Company, (3) the Directors and (4) the Vendor Shareholders, further details of which are contained in paragraph 11 of Part IV of this document
“Placing Price”	125 pence per Ordinary Share
“Placing Shares”	together, the New Ordinary Shares and the Sale Shares
“Placing”	the conditional placing by Rowan Dartington of (i) the New Ordinary Shares on behalf of the Company and (ii) the Sale Shares on behalf of the Vendor Shareholders in each case at the Placing Price pursuant to the Placing Agreement
“Rowan Dartington”	Rowan Dartington & Co. Limited
“Sale Shares”	320,000 Ordinary Shares being sold by the Vendor Shareholders pursuant to the Placing Agreement
“Share Option Scheme”	the share option scheme described in paragraph 8 of Part IV of this document
“Shareholders”	holders of issued Ordinary Shares
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of part VI of the Financial Services and Markets Act 2000
“US”	United States of America
“VCT”	venture capital trust for the purposes of section 842AA and Schedule 28B of the Income and Corporation Taxes Act 1988
“Vendor Shareholders”	Jason Starr, Rory Howard and the Founder Investors

DIRECTORS, SECRETARY AND ADVISERS

Directors	James McLaughlin, <i>Executive Chairman and Finance Director</i> Jason Stuart Starr, <i>Managing Director</i> Rory Howard, <i>Operations Director</i> Alexander David James, <i>Projects Director</i> Michael David Love, <i>Non-Executive Director</i>
Company Secretary	Rory Howard all of:
Registered Office	Calvert House 5 Calvert Avenue London E2 7JP Telephone number: 0207 749 6100
Nominated Adviser and Broker to the Company	Rowan Dartington & Co. Limited Colston Tower Colston Street Bristol BS1 4RD
Auditors	Saffery Champness Beaufort House 2 Beaufort Road Clifton Bristol BS8 2AE
Reporting Accountants	Saffery Champness Lion House Red Lion Street London WC1R 4GB
Solicitors to the Company	Osborne Clarke 2 Temple Back East Temple Quay Bristol BS1 6EG
Solicitors to Rowan Dartington	Roxburgh and Milkins LLP Citypoint Temple Gate Bristol BS1 6PL
Principal Bankers	Barclays Bank plc 240 Whitechapel Road PO Box 14623 London E1 1SH
Financial PR Consultants	Winningtons Financial PR Ltd. St. Brandons House 29 Great George Street Bristol BS1 5QT
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

KEY INFORMATION

The following summary of key information should be read in conjunction with the full text of this document from which it is derived. You are advised to read this document in its entirety and not just rely on the key information below before making a decision as to whether or not to invest in the Ordinary Shares. Attention is drawn, in particular, to the section headed "Risk Factors" set out in Part II of this document.

The business

Dillistone develops, markets and sells its proprietary FILEFINDER software and ancillary services to companies and in house teams involved in executive search throughout many parts of the world. In addition to its head office in London, it has offices in Germany, Australia and North America, and through these offices it offers both direct systems sales and technical support services, as well as a range of other ancillary services.

Each Group office operates within standard local office hours but the offices can collectively provide 24 hour technical support for the majority of Dillistone's customer base by virtue of the fact that each operates in a different time zone, creating a competitive advantage when attracting and retaining global clients.

Dillistone has in excess of 700 client firms, in over 40 countries around the world, none of which commands more than four per cent. of Group annual turnover.

Products and services

The principal activity of Dillistone is the development, sale and support of FILEFINDER. FILEFINDER is a software product used primarily by executive recruiters, as a tool for recruiting passive candidates. The software has been developed to meet the requirements of search firms, who are interested in identifying the best candidates for a specified vacancy. This differentiates it from applicant tracking systems which are primarily used to handle applications from active candidates.

FILEFINDER provides a range of functionality to the recruiter. It combines a database with contact management / customer relationship management tools along with workflow functionality designed to mirror the search process used to identify and recruit passive candidates.

Revenue streams

Dillistone's revenue can be split into two main streams, recurring and non-recurring. Recurring revenue is generated through optional annual support services provided for FILEFINDER. This service includes access to Dillistone's support desk as well as software updates. Non-recurring revenue is typically generated, when licence fees on a per user basis are charged, either on the purchase of additional licences by existing clients or when new clients are won. In addition to the licence fee, clients may also require other non-recurring services, principally data translation, web integration, report writing, training and installation.

Dividend policy

The Company has already made dividend payments and, provided the Company continues to achieve profits, and in the absence of unforeseen circumstances, these are expected to continue consistent with the maintenance of a dividend cover of some 2.0 times earnings and with the working capital requirements of the Company. It is expected that dividends will be paid twice yearly, following the announcement each year of its interim results and after approval of the payment of a final dividend at its annual general meeting in the approximate ratio 33:67 respectively.

The Company's year end is 31 December and it expects, in the absence of unusual circumstances, to report its preliminary announcement of full year results in April and its interim results in September of each year.

If the Placing had been completed at the beginning of the financial year ended 31 December 2005, the Directors have confirmed they would have expected to have recommended a notional dividend per share of four pence.

Trading record

A summary of the Company's financial record for the period from 1 October 2002 to 31 December 2005, as extracted from the accountants' report in Part III of this document, is set out below.

	<i>Year ended 31 December 2005 £'000</i>	<i>Year ended 31 December 2004 £'000</i>	<i>14 month period ended 31 December 2003 £'000</i>
Turnover	2,530	1,825	1,762
Profit from operations	629	180	166
Profit before tax	632	178	155
Total liabilities and equity	1,776	1,317	1,160

Strategy

In addition to targeting their core market of retained executive search firms, the Directors intend to expand the prevalence of FILEFINDER within the interim and in house recruitment sectors. The Group will also continue to add functionality to FILEFINDER which will make it more competitive in markets that use both retained search techniques as well as alternative approaches.

Current trading and prospects

Current trading is ahead of budget as a result of higher than predicted sales and gross profits. Cash reserves at the end of April 2006, adjusted to remove the effect of dividends paid, were approximately £760,000 ahead of the same time in 2005. Based on unaudited management accounts for the four month period to 30 April 2006, Dillistone achieved sales of £1,063,000 and pre-tax profits of £335,000 at an average gross margin of 90 per cent.

Reasons for the Admission and the Placing

The Directors believe that the Company has reached a size and stage of development where it will benefit from the Admission and the Placing. In particular, the future growth potential of the business should be enhanced by an AIM flotation which the Directors consider will help to generate increased visibility and credibility for Dillistone in its marketplace. Furthermore, it is expected that an AIM flotation will provide the Company with access to further capital in the future, a market in the Company's shares and the ability to provide share based incentives to its Directors and employees.

The Placing of 200,000 New Ordinary Shares at 125 pence per share will raise gross proceeds of £250,000 for the Company which will be used by DSL for working capital purposes. At the Placing Price, the market capitalisation of the Company on Admission will be £6,750,000.

PLACING AND MARKET STATISTICS

Placing Price	125 pence per share
Number of New Ordinary Shares to be issued pursuant to the Placing	200,000
Value of the New Ordinary Shares being issued at the Placing Price	£250,000
Number of Sale Shares to be sold pursuant to the Placing	320,000
Value of the Sale Shares being sold at the Placing Price	£400,000
Gross proceeds of the Placing receivable by the Company	£250,000
Number of Ordinary Shares in issue immediately following Admission	5,400,000
Market capitalisation of the Company at the Placing Price	£6,750,000
Price/earnings multiple (1)	15.6
Notional dividend (2)	4 pence per share
Dividend yield at the Placing Price	3.2 per cent.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	14 June 2006
CREST accounts credited in respect of the Placing	15 June 2006
Admission effective and dealings commence	15 June 2006
Share certificates dispatched by	22 June 2006

Notes

1. Based on the post-tax profit of £432,071 for the financial year ended 31 December 2005, adjusted for the proceeds of the Placing as if the Placing had been completed at the beginning of the period and as if the New Ordinary Shares had been in issue throughout the year.
2. Based on a notional dividend of 4 pence per Ordinary Share which the Directors have confirmed they would have expected to have paid on the basis that the Placing had been completed at the beginning of the year ended 31 December 2005.

PART I
INFORMATION ON THE COMPANY

1. INTRODUCTION

Dillistone Group Plc is the holding company for a group of companies, which develops, markets and sells its proprietary FILEFINDER software and ancillary services to companies and in house teams involved in executive search throughout many parts of the world. In addition to its head office in London, it has offices in Germany, Australia and North America, and through these offices it offers both direct systems sales and technical support services, as well as a range of other ancillary services. The Group does not market its systems through intermediaries; it manages all sales directly with clients.

Its clients are predominantly executive search firms who act for their clients to identify and recruit candidates according to their client's requirements. In addition, the Group has recently developed additional functionality to FILEFINDER which will make its products more suitable for sale to interim recruiters and recruitment firms engaged in the provision of staff on an interim or contract basis. This new functionality was released in a new version of FILEFINDER in early 2006.

In addition to the executive recruitment market, the Company also supplies its system to a number of non-specialist recruitment companies, such as financial institutions, for use in their internal staff recruitment functions. There is a growing trend amongst these companies to use such systems which offers Dillistone an additional potential source of income generation.

Research and development for FILEFINDER is carried out in house by the Company's own staff and consultants.

Dillistone has in excess of 700 client firms, in over 40 countries around the world, none of which commands more than four per cent. of Group annual turnover. Sales have increased by approximately 44 per cent. from approximately £1.8m for the 12 months of trading ended 31 December 2003 to approximately £2.5m for the year ended 31 December 2005. For the year ended 31 December 2005 the proportion of turnover arising from recurring fees amounted to approximately 39 per cent. of Group sales.

With an average gross margin of approximately 89 per cent., for the financial periods reported on in Part III of this document, incremental sales produce additional significant contributions to Group profitability. Profits before tax have increased from £154,982 for the 12 months of trading ended 31 December 2003 to £631,847 for the year ended 31 December 2005, as a result of its success in increasing sales, and by careful management of its cost base. This represents an increase of approximately 308 per cent.

2. HISTORY AND BACKGROUND

The business was established in 1983 by David Dillistone and was incorporated as Dillistone Systems Limited in 1986. In 1992 45 per cent. of DSL was acquired by Custom Business Systems Limited, a company controlled by Stuart Hobbs, and two additional shareholders. The remaining 55 per cent. of DSL was acquired by CBS in 1996.

In 1997, CBS established Dillistone Systems (US) Inc., originally registered in New York, and re-registered in New Jersey in 1998. In addition to the New Jersey office, DS (US) also operates out of Dallas, Texas. In January 1998, DSL established Dillistone Systems (Australia) Pty Limited, its subsidiary which is based in Sydney, Australia, and which services clients based in Australia, New Zealand and Asia.

In 2003, Jason Starr and Rory Howard completed a management buy-out of CBS from Stuart Hobbs, assisted by Jim McLaughlin and the other Founder Investors. Dillistone Group Limited was established as the vehicle for the management buy-out.

The Group was recently reorganised so that DSL and DS (US) became direct subsidiaries of the Company, with DS (Australia) remaining as a subsidiary of DSL. It is envisaged that CBS, which has not traded since 2002, will be dissolved.

3. THE MARKET

The market for recruitment services may be broken down into a number of levels, both as regards skill sets being recruited and type of recruitment services used. At one extreme, potential employees register with an employment agency, which then seeks to place them with potential employers, whilst, at the other, clients seeking high level management instruct, and may retain, executive search consultants to identify and canvas potential executives. Dillistone's market lies almost exclusively in this latter category of executive search consultants, although the new developments to FILEFINDER, which support the process associated with making short term placements, may make it more useful within the contract and interim recruitment market.

There are a large number of executive search firms, which range from the small single proprietor business to large international organisations, which may recruit senior executives from across the world. In house research carried out for the purposes of publication in the Group's Search-Consult magazine, published in September 2005, indicated that the top 28 global executive search firms had 1,270 offices across the world, including 247 located in North America, 664 in Europe and 230 in South East Asia. The top 20 of these firms, according to the Executive Recruiter News market review conducted in March 2006, generated turnover in 2005 of over US\$2.7 billion, representing a 16 per cent. increase over the previous year.

While there appears to be no publicly available independent market research on the size of the executive search market, the Group's own marketing database contains approximately 15,000 executive search and interim management professionals. Approximately 46 per cent. of Dillistone's client companies are based in the UK, 22 per cent. in the rest of Europe, 19 per cent. in North America and the remaining 13 per cent. in Australia, New Zealand and Asia. These figures reflect the historic growth in the UK and subsequent, more recent, expansion overseas. As is outlined in the "Strategy" section, the Directors expect Dillistone's penetration of international markets to increase and this has already been seen with approximately 20 per cent. of the Group's new clients for the first quarter of 2006 coming from emerging markets.

The Directors believe that the interim management recruitment market is a relatively new and developing market, particularly in the US and Asia, and that it is likely to grow considerably in the future.

There has been an increasing trend for in house recruiters to purchase FILEFINDER in order to manage their executive recruitment needs. The Directors believe that this is indicative of in house recruitment functions increasingly using the 'direct approach' methods of executive search. Larger companies are increasingly setting up in house search teams who may purchase executive search software such as FILEFINDER. It is the Company's experience that this trend is more advanced in the US than other regions. Approximately seven per cent. of Dillistone's first quarter 2006 sales (by number of new clients) came from in house recruiting teams and the Directors anticipate that this figure will continue to grow over the remainder of the year.

The Group's traditional market, of executive search in the developed economies of the world, is affected by cyclical economic factors. Notwithstanding the impact of economic slowdowns, the Group has historically remained profitable throughout such periods. The Group's marketing strategy, targeting both corporate recruiters and emerging economies, in addition to its traditional market, is expected to mitigate the impact of any future economic recessions in the developed economies.

The executive search market continues to grow. Hunt-Scanlon reported that the top 25 US executive search firms grew by an average of 21 per cent. in 2005. March 2006 data from US based Execunet suggest that 80 per cent. of executive recruiter respondents are confident or very confident that the US executive employment market will improve during the next six months. However, the highest current rate of growth is being experienced in developing markets. In the first quarter of 2006, approximately 20 per cent. of Dillistone's new business sales (by number of new orders) came from developing

markets, which includes countries such as Bulgaria and Romania, compared to approximately ten per cent. over the previous 12 months.

In the first quarter of 2006 at least 50 per cent. of the sales won by Dillistone in the developing markets followed a recommendation from an affiliated FILEFINDER user. Search-Consult is mailed to many of the search firms in these countries exposing these firms to advertising featuring FILEFINDER but not the products supplied by Dillistone's competitors.

A small number of FILEFINDER sales in developing markets could make Dillistone the market leader within these markets as a consequence of the fact that a relatively small number of executive search firms operate in these countries. As these markets grow, recruiters may leave these more established firms and may purchase FILEFINDER for a new business start-up. The Directors believe that these markets provide a significant growth opportunity for Dillistone.

4. THE BUSINESS

FILEFINDER can be used to manage the recruitment of active candidates, those who are actively seeking employment, and to manage the recruitment of passive candidates, those who are not actively seeking employment. It is however, particularly suited to managing the recruitment of passive candidates.

Historically, recruitment companies dealing with lower level positions and in house recruiting teams would deal with active candidates. Passive candidates were the preserve of executive search firms. Therefore, the market for FILEFINDER has, in the past, been relatively limited.

Today, however, recruiters increasingly acknowledge that the best candidate for a position is often passive and will need to be approached. Therefore, both lower level recruitment firms and corporate recruiters are increasingly turning to the direct approach techniques of executive search firms which are inherent to FILEFINDER and provide further opportunities to sales and profit growth.

Structure and operations

Dillistone is structured to facilitate the cost effective support of a global client base.

The Dillistone head office in London provides support and services to clients in Europe, in addition to development and various administrative functions. The satellite offices in North America, Germany and Australia provide services to clients in the Americas, Europe and Australia, New Zealand and Asia respectively. Satellite offices are backed up by the head office when required, and each office can also provide out of hours services to other regions.

Each Group office operates within standard local office hours but the offices can collectively provide 24 hour technical support for the majority of Dillistone's customer base by virtue of the fact that each operates in a different time zone, creating a competitive advantage when attracting and retaining global clients. Client feedback illustrates that this regional office structure and the support services provided by Dillistone are a key driver in client retention and a major competitive advantage in the Dillistone business model.

The Directors consider that this international structure is both cost effective and scalable. It has enabled the Company to implement FILEFINDER in over 40 countries and, given that sales demonstrations and implementations are increasingly provided remotely, sales into additional geographic markets are not expected to require the opening of additional offices.

Jason Starr leads the sales force and determines the regional targets for each of the sales managers as well as overall marketing strategy. Conversion rates from lead to sale are closely monitored and, once a lead is converted to a sale, the project is managed by a team which is headed by Alex James.

The projects team is responsible for the implementation of the system within the clients' environment, and this may involve not only the installation of FILEFINDER on the clients' computers, but also the implementation of web based products, the translation of a client's existing database into a format

suitable for use in FILEFINDER and the establishment of hosting services on the Group's servers. The servers are located in rented premises away from the head office and are operated by a specialist company.

It generally takes approximately two months from the point of sale to complete a project, however, this timeframe will vary depending on the complexity of the project. Project teams are located in London, Sydney, New Jersey and Frankfurt. Client training takes place either remotely over the Internet, on the client's premises or in a dedicated training facility at the London office. The Group has 22 members of staff who are qualified to train users of the system.

Rory Howard oversees the global support function, which comprises 13 staff, spread across each of the Group's offices. He is also responsible for overseeing the IT infrastructure management of the Group, product development and all Group human resources matters.

Products and services

The principal activity of Dillistone is the development, sale and support of FILEFINDER. FILEFINDER is a software product used primarily by executive recruiters, as a tool for recruiting passive candidates. The software has been developed to meet the requirements of search firms, who are interested in identifying the best candidates for a specified vacancy. This differentiates it from applicant tracking systems which are primarily used to handle applications from active candidates.

FILEFINDER provides a range of functionality to the recruiter. It combines a database with contact management / customer relationship management tools along with workflow functionality designed to mirror the search process used to identify and recruit passive candidates.

FILEFINDER is a Windows® application and is designed to work seamlessly with the Microsoft Office® suite and, as such, emails entered in FILEFINDER may be mailed through MS Outlook® and letters through MS Word®.

Whilst the majority of clients will use the same core application, Dillistone offers a range of additional features which may be used by specific businesses. These include web integration, both candidate side (for example application forms and online job listings) and client side (extranet functionality to facilitate reporting to clients). In certain countries, an optional resumé data extraction tool which automatically populates database fields with information from the candidate's curriculum vitae is also offered.

The FILEFINDER system is normally sold on a per user licence basis, with additional charges for add-on functionality. The Company also sells a range of implementation services including installation, training and data translation which are typically sold on a daily rate basis.

Dillistone also provides annually renewable support contracts. These are typically charged at 20 per cent. of the full licence fee and ensure that every time an additional licence is sold, recurring income increases in the following financial years.

The latest version of FILEFINDER is Version 7.5 which was released in early 2006. Dillistone invests resources in keeping abreast of market trends in order to upgrade FILEFINDER and its related services appropriately. Version 8 of FILEFINDER is due to be released in early 2007.

Every FILEFINDER licence sold requires a licence for "SQL Anywhere" from Sybase (UK) Limited. In addition, if clients require the curriculum vitae recognition functionality within FILEFINDER, they must also purchase a REX licence. This licence is supplied to Dillistone by Resumé Mirror Inc. through an annually renewable contractual arrangement. Clients purchase all of these licences through Dillistone.

Revenue streams

Dillistone's revenue can be split into two main streams, recurring and non-recurring.

Recurring revenue is generated through optional annual support services provided for FILEFINDER. This service includes access to Dillistone's support desk as well as software updates. Clients are

typically invoiced annually in advance either every December or every June. The income is deferred and recognised evenly over the course of the contract. Recurring fees are also generated through hosting and other services, where Dillistone host the client's data on their servers. Recurring turnover for the Group, for the year ended 31 December 2005, was £977,713, representing approximately 39 per cent. of total Group turnover for the year, having increased from £838,065 representing approximately 46 per cent. of Group turnover in 2004. For the year ended 31 December 2005 recurring sales increased in absolute terms but fell as a percentage of total sales as a result of the significant value of new client business. Those additional sales should lead to increased recurring turnover in future years.

Non-recurring revenue is typically generated, when licence fees on a per user basis are charged, either on the purchase of additional licences by existing clients or when new clients are won. In addition to the licence fee, clients may also require other non-recurring services, principally data translation, web integration, report writing, training and installation. Licence fees are recognised immediately following live implementation. Non-recurring turnover for the Group, for the year ended 31 December 2005, was £1,552,600, representing approximately 61 per cent. of the Group's turnover for the year, having increased from £986,832 representing approximately 54 per cent. of Group turnover in 2004.

Client base

The Group has an extensive client base with in excess of 700 client firms in over 40 countries. Clients vary in size from those operating with one user licence to larger organisations with an international presence and with several hundred user licences.

Over 90 per cent. of Dillistone's clients operate primarily in the executive search sector. An independent survey conducted in March 2005 by Executive Grapevine International Limited listed the top ten UK executive search firms, in terms of net income, who handled assignments in excess of £100,000 per assignment. Of these top ten search firms, four are Dillistone clients. Executive Grapevine International Limited also listed the top 12 UK executive search firms, in terms of net income, which employed less than 20 consultants, nine of which are Dillistone clients.

Within many of the larger executive groups or networks of search firms, which are clients of Dillistone, it is still possible for Dillistone to win additional business, not only in terms of annual support contracts but also in terms of additional licences. Many of the larger global retained executive search networks do not have a central IT policy, and it is therefore possible for offices in different locations to use different software. One of the benefits to these clients of implementing FILEFINDER throughout their business is that a common database for the entire organisation, once established, can be accessed from anywhere in the world. Firms primarily involved in executive search made up approximately 86 per cent. of Dillistone's new business orders for the year ended 31 December 2005.

In addition to its traditional client base, the Group has, over the past three years, seen growth in the market for its product amongst the human resources departments of large corporate clients such as financial institutions, who use it to manage internal search and recruitment. These clients, which made up approximately six per cent. of Dillistone's new business orders for the year ended 31 December 2005, include Merrill Lynch.

In 2005 new functionality was developed for the FILEFINDER software which was especially designed for the firms participating in the contract and interim recruitment market. These developments have already been instrumental in sales to two new major clients. Recruiters operating in the contract and interim market provide their clients with personnel to fill positions at short notice for an interim period. Firms primarily involved in interim management or contracting made up approximately eight per cent. of Dillistone's new business orders for the year ended 31 December 2005.

The diversity of the Group's client base is such that no one client dominates its business, with the largest client in 2005 accounting for less than four per cent. of Group annual turnover, and the top ten clients, by revenue, together accounting for approximately 15 per cent. of Group turnover in 2005.

Sales and marketing

All marketing activities are managed and directed from the UK. The marketing team comprises four staff, one of whom is a dedicated database researcher.

Dillistone markets its products in a number of ways. It publishes Search-Consult, a magazine which is circulated to approximately 5,000 executive search and interim management firms globally, on a quarterly basis, and features both advertising and editorial about its products. Associated with the magazine is a monthly electronic newswire. This is circulated globally to in excess of 16,000 people with an interest in executive search, and illustrates recent trends in the search industry and carries advertising for the Group's products. The Directors believe that Search-Consult is a cost effective marketing tool. Dillistone also places some advertising in third party publications.

Extensive online marketing is carried out, both in terms of search engine optimisation and online advertising. In addition the Company makes regular paper mailings, and staff attend numerous exhibitions and conferences across the world. The Company also receives a large number of referrals from existing clients, and often sells to recruiters leaving larger firms to establish their own businesses. The Directors believe that approximately 40 per cent. of sales, by number, are generated by recommendation.

Competition

There is a wide variety of software available to executive search firms and employment agencies, which range from commonly available generic applications, adapted to suit the clients' operational requirements, to specialised software such as FILEFINDER which provides a comprehensive, assignment driven, workflow process. Many small executive search firms use non specialised recruitment products such as Microsoft Access, Act, Filemaker Pro and other generic contact management tools. The Directors believe that the majority of the largest executive search firms use their own in house search software.

Dillistone competes with different competitors in different geographic markets, most of which operate from a single office and primarily cover one such market. In the executive search market competitors include BullHorn Inc., Hiredesk Solutions Corp., The Cluen Corporation and Workflow International Inc. in the Americas, Microdec PLC in the UK and Fecher e.Kfm in Germany.

In the interim recruitment market, Dillistone competes with firms such as Bond International Software plc and Voyager Software Limited. Both Bond and Voyager will, from time to time, compete in the executive search sector but currently appear to be stronger in contract and interim recruitment markets.

In the in house recruitment market, competition may come from any of the above firms, but also from more generic applicant tracking systems and even from human resource software suites.

Financial information

A summary of the Company's financial record for the period from 1 October 2002 to 31 December 2005, as extracted from the accountants' report in Part III of this document, is set out below.

	<i>Year ended 31 December 2005 £'000</i>	<i>Year ended 31 December 2004 £'000</i>	<i>14 month period ended 31 December 2003 £'000</i>
Turnover	2,530	1,825	1,762
Profit from operations	629	180	166
Profit before tax	632	178	155
Total liabilities and equity	1,776	1,317	1,160

The results of the Company show the progress which the Company has made. As illustrated in the table above, turnover and operating profit have increased by approximately 39 per cent. and approximately 250 per cent. respectively between 2004 and 2005. DS (Australia) and DS (US) saw the highest turnover increases between 2004 and 2005 of approximately 52 per cent. and 66 per cent. respectively. The UK and Europe also experienced sales increases for the same period of approximately 23 per cent. and 49 per cent. respectively.

Low variable costs have historically produced average gross margins of approximately 89 per cent. for the financial periods reported on in Part III of this document. Additional sales coupled with a

relatively stable fixed cost base have led to a marked increase in Group profitability over these periods. A low working capital requirement and low capital expenditure mean that cash flow and profitability have historically shown a close correlation.

Current trading and prospects

Current trading is ahead of budget as a result of higher than predicted sales and gross profits. Cash reserves at the end of April 2006, adjusted to remove the effect of dividends paid, were approximately £760,000 ahead of the same time in 2005. Based on unaudited management accounts for the four month period to 30 April 2006, Dillistone achieved sales of £1,063,000 and pre-tax profits of £335,000 at an average gross margin of 90 per cent.

The Directors consider that the Company is well placed to exploit the potential offered in the executive recruitment market and related sectors.

Strategy

Dillistone is following a number of strategies with the objective of delivering sales and profit growth.

Dillistone will continue to increase the penetration of its core executive search market by actively developing relationships with the major international networks and by positioning itself as a global partner to these network members. Dillistone has already experienced some success with this policy. In addition, Dillistone is increasingly targeting regions such as the Americas and the developing markets which the Directors believe have the highest potential for growth.

The Group will continue to add functionality to FILEFINDER which will make it more competitive in markets that use both retained search techniques as well as alternative approaches. Typically, these firms are larger than the pure executive search firms and so a relatively small number of orders may have a significant impact on Group turnover and profitability. The two largest orders placed for FILEFINDER in 2005 were a direct result of Dillistone's increased ability to support the interim recruitment market.

In addition to targeting their core market of retained executive search firms, the Directors intend to expand the prevalence of FILEFINDER within the interim and in house recruitment sectors. Throughout 2006 the sales and marketing team will be attending a range of conferences, primarily in the US where the trend towards in house recruiting is most significant in order to target this market. Dillistone's largest new client order, by revenue, in the first four months of 2006 was to the global recruiting team of a well known software firm.

5. DIRECTORS

Jim McLaughlin, aged 50, Executive Chairman and Finance Director

Jim McLaughlin is a Chartered Accountant. He was finance director of Badgerline Plc, the public transport operator, from 1988 until 1995, where he was instrumental in the growth and flotation of that company, which in 1995 merged to form First Group plc. He joined Heritage Bathrooms in 1995 to lead their flotation later that year, and remained on the board there until 1998, when he joined Connaught Plc to perform a similar role on a part time basis. In 1999 he became the strategic development director, with particular responsibility for acquisitions, mergers and corporate governance matters. He left Connaught in 2002, and in 2003 joined the Company as Executive Chairman and Finance Director.

In addition, Jim has held a number of non-executive appointments as a nominee of institutional investors.

Jason Starr, aged 34, Managing Director

Jason Starr joined the Group in 1994 in a junior marketing role, on a temporary basis. This position became permanent after six months. He became marketing manager in 1996 before becoming

managing director of the UK business in 1998. Following the MBO, Jason became Managing Director of the Group.

Jason is well known in the industry and has spoken at events in Asia, the US and Europe. He has written on the topic of technology and search for both Search-Consult and third party publications.

Jason has a BA (Honours) business studies degree from the London Guildhall University.

Rory Howard, aged 38, *Operations Director*

Rory Howard has a BA (Honours) in business administration and is a PRINCE2 practitioner. Rory started his career with the Dixons Stores Group and from 1991 to 1994 he worked in the systems and control department as a technical support analyst working on their EPOS systems, data reporting and security. He then joined JATO Dynamics Ltd, a software company specialising in the automotive research market, as a database analyst, developing databases for pricing models for the large automotive manufacturers. In 1998 he joined Dillistone Systems Limited as a project manager, and the following year became the global projects manager, tasked with restructuring all implementations and data migrations procedures and operations. In 2003 Rory became Operations Director of Dillistone Systems Limited and a member of the Board.

Alex James, aged 33, *Projects Director*

Alex graduated from Swansea University in 1995 with a degree in psychology and is a PRINCE 2 qualified practitioner. In 1995 Alex joined Mallinckrodt Veterinary working in quality control. In 1997 he moved to Responseability, a company that manages aspects of the recruitment process for clients, starting in administration before progressing into an account management role. Alex started at Dillistone in 1999 in a training/consultancy position prior to becoming the UK and then global projects manager, being ultimately responsible for the implementation of all products and services to both new and existing clients. Alex joined the board of Dillistone Systems Limited in January 2005 and the Group Board in February 2006.

Mike Love, aged 58, *Non-Executive Director*

Mike Love has a PhD in theoretical physics and 29 years' experience in the software industry. He is currently chairman of CODASciSys plc, chairman of ClearStream Technologies Group plc and senior non-executive director of Surface Technology Systems plc, all of which are AIM quoted companies. He was group managing director of CODASciSys from 1986 to 2003 during which time he led a management buy-out of the business and floated it on AIM in 1997. He is a member of the AIM Advisory Group of the London Stock Exchange.

6. CORPORATE GOVERNANCE

The Directors recognise the importance of sound corporate governance and are committed to maintaining high standards of corporate governance. Whilst at this stage of the Company's development the Directors consider that full compliance with the Combined Code (the code of corporate governance required to be adopted by all companies admitted to the Official List) would be too onerous, the Directors do intend to comply with the provisions of such Code insofar as it is appropriate and practicable for a company of its size and nature. The Board includes a single Non-Executive Director at the date of this document.

Audit, remuneration and nomination committees will be established upon Admission, comprising the Executive Chairman and the Non-Executive Director.

The role of the Remuneration Committee will be to review the performance of the Executive Directors and other senior executives and to set the scale and structure of their remuneration, including bonus arrangements, with due regard to the interests of Shareholders. In the case of the Executive Chairman, his performance will be reviewed by the Non-Executive Director. The Remuneration Committee will administer and establish performance targets for share incentive schemes and determine the allocation of share incentives to employees as and when such initiatives are adopted. In exercising this role, the

terms of reference of the Remuneration Committee will require it to comply, so far as practicable given the current composition of the Board, with the Code of Best Practice published in the Combined Code.

The Audit Committee will be responsible for making recommendations to the Board on the appointment of the auditors and the audit fee and will review reports from management and the Company's auditors on the financial accounts and internal control systems used throughout the Company.

The Nomination Committee has responsibility for proposing to the Board, in the first instance, any new appointment of both Executive and Non-Executive Directors.

By a resolution dated 13 June 2006, the Board adopted a code of dealings in the Ordinary Shares, which is derived from the Model Code for Directors' Dealings contained in the Listing Rules of the UK Listing Authority. The Board will be responsible for taking all proper and reasonable steps to ensure compliance with the Model Code by the Directors and senior employees.

7. SHARE INCENTIVE SCHEME

The Directors recognise the importance and value of share incentive schemes in attracting and retaining key staff.

The Company has adopted the Share Option Scheme providing for the grant of tax approved Enterprise Management Incentive Share Options ("EMI") and non-taxed approved options ("Unapproved") for those who do not satisfy the eligibility criteria for EMI. The aggregate number of shares which may be issued under share incentive schemes will not exceed ten per cent. of the Company's issued share capital over a rolling ten year period.

Further details of the Share Option Scheme are set out in paragraph 8 of Part IV of this document.

8. DIVIDEND POLICY

The Company has already made dividend payments and, provided the Company continues to achieve profits, and in the absence of unforeseen circumstances, these are expected to continue consistent with the maintenance of a dividend cover of some 2.0 times earnings and with the working capital requirements of the Company. It is expected that dividends will be paid twice yearly, following the announcement each year of its interim results and after approval of the payment of a final dividend at its annual general meeting in the approximate ratio 33:67 respectively.

The Company's year end is 31 December and it expects, in the absence of unusual circumstances, to report its preliminary announcement of full year results in April and its interim results in September of each year.

If the Placing had been completed at the beginning of the financial year ended 31 December 2005, the Directors have confirmed they would have expected to have recommended a notional dividend per share of four pence.

9. REASONS FOR ADMISSION

The Directors believe that the Company has reached a size and stage of development where it will benefit from the Admission and the Placing. In particular, the future growth potential of the business should be enhanced by an AIM flotation which the Directors consider will help to generate increased visibility and credibility for Dillistone in its marketplace. Furthermore, it is expected that an AIM flotation will provide the Company with access to further capital in the future, a market in the Company's shares and the ability to provide share based incentives to its Directors and employees.

10. DETAILS OF THE PLACING

The Placing of 520,000 Ordinary Shares at 125 pence per share comprises 200,000 New Ordinary Shares being issued by the Company and 320,000 Sale Shares. The Placing of the New Ordinary Shares will raise £250,000, which will be used by DSL for working capital purposes. At the Placing Price of 125 pence per Ordinary Share, the market capitalisation of Dillistone will be approximately £6,750,000 on Admission.

Jim McLaughlin, Jason Starr and Rory Howard are taking the opportunity to sell 68,572, 80,000 and 80,000 Ordinary Shares respectively and each of the other Founder Investors are taking the opportunity to sell 22,857 Ordinary Shares as part of the Placing to facilitate the development of a market in the Company's shares.

Following completion of the Placing, Jim McLaughlin, Jason Starr and Rory Howard will respectively own 1,045,712, 1,220,000 and 1,220,000 Ordinary Shares, together representing approximately 64.6 per cent. of the issued share capital of the Company.

11. DEALING ARRANGEMENTS

Application has been made to the London Stock Exchange by the Company for the entire issued share capital of the Company to be admitted to trading on AIM. It is expected that Admission will become effective and dealings will commence on 15 June 2006.

12. LOCK-IN UNDERTAKINGS

Immediately following Admission Jim McLaughlin, Jason Starr and Rory Howard will be the largest Shareholders, holding 19.4 per cent., 22.6 per cent. and 22.6 per cent. of the issued ordinary share capital of the Company respectively.

The Executive Directors and other Founder Investors have given undertakings that they will not sell, transfer or otherwise dispose of any Ordinary Shares or interest in Ordinary Shares held on Admission for a period of 12 months from the date of Admission. For the following 12 month period, they have agreed not to dispose of any interest in Ordinary Shares held by them unless such disposals can be effected in accordance with Rowan Dartington's reasonable requirements so as to ensure an orderly market in the Ordinary Shares.

13. EIS, VCT QUALIFYING INVESTMENT STATUS AND GENERAL TAXATION

On the basis of information provided to HMRC, HMRC has given provisional confirmation that the Company will comply with the requirements of Schedule 28B of ICTA 1988 and that the Ordinary Shares will be eligible shares for the purposes of venture capital trusts. The status of the Ordinary Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, upon the Company continuing to satisfy the relevant requirements.

HMRC has also granted the Company provisional approval, on the basis of information supplied, that shares to be issued under the Placing should be eligible for EIS purposes, subject to the submission of the relevant claim form in due course. Such a claim by the Company does not guarantee EIS qualification for an individual, whose claim for relief will be conditional upon his own circumstances and is subject to holding the shares throughout the relevant three year period. In addition, for EIS Relief not to be withdrawn, the Company must comply with a number of conditions throughout the qualifying period relating to those shares.

Your attention is drawn to the section headed "Taxation" and the section headed "EIS tax relief" set out in paragraphs 9 and 10 respectively of Part IV of this document. If you are in any doubt regarding your tax position, you should contact your professional adviser without delay.

14. CREST

CREST is a computerised share transfer and settlement system enabling securities to be held in electronic uncertificated form and transferred otherwise than by written instrument. The Articles permit the Company to issue shares in uncertificated form in accordance with the Uncertificated Securities Regulations 2001.

The Company has applied to CRESTCo Limited for the Ordinary Shares to be admitted to and enabled through CREST with effect from Admission. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within CREST if the relevant Shareholder so wishes. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Persons acquiring shares under the Placing may, however, elect to receive Ordinary Shares in uncertificated form if, but only if, that person is a “system member” (as defined in the CREST Regulations) in relation to CREST.

15. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Part IV of this document.

PART II

RISK FACTORS

An investment in the Company and the Ordinary Shares described in this document is speculative, involves a high degree of risk and may result in the loss of all or part of the investment. Shareholders and prospective investors should consider in particular the following risk factors before making a decision to invest in the Company and understand that these risks, individually or in aggregate if they actually occur, could have a material adverse effect on the Company, the Group, its business, financial conditions, capital resources, results or future operations and/or holders of its securities. In such a case, the price of the Ordinary Shares could decline and investors may lose all or part of their investment.

Moreover, the information set out below does not purport to be an exhaustive summary of the risks associated with an investment in the Company. Additional risks and uncertainties of which the Directors are not currently aware, or which the Directors do not currently consider to be material, may also have an adverse effect on the Company. These risks could arise as a result of changes in the market, economic conditions and/or in legal, regulatory or tax requirements.

If you are in any doubt about the action you should take, you should consult a personal adviser authorised under the Financial Services and Markets Act 2000 who specialises in the acquisition of shares and other securities. A prospective investor should consider carefully whether an investment in the Company is suitable in the light of his, her or its personal circumstances and the financial resources available to him, her or it.

In particular, prospective investors should consider the following:

External licence dependency

FILEFINDER uses a SQL Anywhere database platform and therefore every FILEFINDER licence that is sold must be accompanied by an appropriate SQL Anywhere licence provided by Sybase (UK) Limited. The Company has an annually renewable contractual arrangement with Sybase (UK) Limited. In the event of non renewal by Sybase (UK) Limited, which the Directors consider to be very unlikely, the Company would be obliged to migrate the system to an alternative package such as Microsoft SQL Server or Oracle. This could cause delays in the release of future versions of FILEFINDER as development resources were diverted.

Key personnel

The Company's future success, particularly in the short term, depends in large part on the continued service of its key management and its ability to continue to attract, motivate and retain skilled employees. The loss of the services of any of the Executive Directors or other senior management could have an adverse effect on the Company's business. The Board have sought to mitigate this risk by ensuring that options over Ordinary Shares have been made available to all personnel on whom the Company has a dependency.

Taxation, including EIS and VCT status

Any change in the Company's tax status or in tax legislation could affect its ability to provide returns to Shareholders or alter post tax returns to Shareholders. The taxation of an investment in the Company depends on the individual circumstances of investors.

The Company has received provisional approval from the Inland Revenue confirming that its activities and the shares to be issued should qualify under the EIS and the VCT legislation. Neither the Company nor the Company's advisers give any warranties or undertaking that EIS relief or VCT qualifying status will be available or that, if given, such relief or status will not be withdrawn.

Circumstances may arise where the Directors believe that the interest of the Company are not best served by acting in a way that preserves the EIS Relief (including Capital Gains Tax) or VCT qualifying

status. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to preserve any such relief or status claimed by any Shareholder.

Should the law regarding EIS or VCT change then any reliefs or qualifying status previously obtained may be lost.

If the Company ceases to carry on the business outlined in this document during the three year period from the last allotment of Ordinary Shares, this could prejudice the qualifying status of the Company under the EIS and VCT schemes. This situation will be closely monitored with a view to preserving the Company's qualifying status but this cannot be guaranteed.

Investors should consider carefully whether the investment in the Company is suitable for them in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.

Other considerations relating to an investment in Ordinary Shares

Substantial future sales of Ordinary Shares could impact the market price of Ordinary Shares. There has been no prior market in the Ordinary Shares before and an active trading market may not develop or be sustained in the future.

Insiders will continue to have substantial control over the Company after completion of the Placing, so potential investors may not be able to influence the outcome of some of the Company's important decisions.

PART III

ACCOUNTANTS' REPORT ON DILLISTONE GROUP PLC

14 June 2006

The Directors
Dillistone Group Plc
Calvert House
5 Calvert Avenue
London
E2 7JP

The Directors
Rowan Dartington & Co. Limited
Colston Tower
Colston Street
Bristol
BS1 4RD

Dear Sirs

Accountants Report on Dillistone Group Ltd and its subsidiaries (“Dillistone”)

We report on the financial information set out below. The financial information has been prepared for inclusion in the Admission Document dated 14 June 2006, of Dillistone Group Plc on the basis of the accounting policies set out in note 3. The report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that Schedule and for no other purpose.

Responsibility

The directors of Dillistone are responsible for preparing the financial information on the basis of preparation set out in notes 2 and 3 to the financial information and in accordance with International Financial Reporting Standards (“IFRS”).

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information.

It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate, 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 set out below gives, for the purposes of the Admission Document of Dillistone Group Plc dated 14 June 2006, a true and fair view of the state of the affairs of Dillistone Group Ltd, as at the dates stated and its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 3 and in accordance with the IFRS as described in note 2.

Declaration

We are responsible for this report as part of the Admission Document and declare that, having taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

Saffery Champness

**Chartered Accountants
Lion House
Red Lion Street
London WC1R 4GB**

CONSOLIDATED INCOME STATEMENTS

		<i>Year ended</i>		<i>14 Month</i>
	<i>Note</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
		2005	2004	2003
		£	£	£
Continuing activities				
Revenue	4	2,530,313	1,824,897	1,761,639
Cost of sales		(271,171)	(209,565)	(166,930)
Gross profit		2,259,142	1,615,332	1,594,709
Administrative expenses		(1,629,994)	(1,435,691)	(1,428,959)
Profit from operations		629,148	179,641	165,750
Investment income	6	2,699	113	7
Finance costs	6	–	(2,104)	(13,119)
Other income		–	–	2,344
Profit before tax		631,847	177,650	154,982
Tax expense	7	(199,776)	(49,348)	(42,952)
Profit for the year / period		<u>432,071</u>	<u>128,302</u>	<u>112,030</u>

CONSOLIDATED BALANCE SHEETS

		<i>As at 31 December</i>		
	<i>Note</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
		£	£	£
ASSETS				
Non-current assets				
Goodwill	10	494,393	494,393	494,393
Property plant and equipment	11	25,345	25,218	38,106
		<u>519,738</u>	<u>519,611</u>	<u>532,499</u>
Current assets				
Inventories	12	32,414	29,184	6,720
Trade and other receivables	13	708,187	643,664	504,805
Cash and cash equivalents		515,750	124,125	115,654
		<u>1,256,351</u>	<u>796,973</u>	<u>627,179</u>
Total assets		<u><u>1,776,089</u></u>	<u><u>1,316,584</u></u>	<u><u>1,159,678</u></u>
EQUITY AND LIABILITIES				
Equity				
Share capital	15	105,000	105,000	105,000
Share premium		106,237	106,237	106,237
Retained earnings		304,903	240,332	112,030
Translation reserve		14,822	(5,562)	(7,131)
Total equity		<u>530,962</u>	<u>446,007</u>	<u>316,136</u>
Liabilities				
Current liabilities				
Bank loans and overdrafts		–	–	72,235
Trade and other payables		1,015,142	791,966	666,738
Current tax payable		229,985	78,611	104,569
		<u>1,245,127</u>	<u>870,577</u>	<u>843,542</u>
Total liabilities	14	<u>1,245,127</u>	<u>870,577</u>	<u>843,542</u>
Total liabilities and equity		<u><u>1,776,089</u></u>	<u><u>1,316,584</u></u>	<u><u>1,159,678</u></u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<i>Share capital</i> £	<i>Share premium</i> £	<i>Retained earnings</i> £	<i>Foreign exchange</i> £	<i>Total</i> £
Balance at 31 October 2002	1	–	–	–	1
Issue of share capital	104,999	106,237	–	–	211,236
Profit for the period ended 31 December 2003	–	–	112,030	–	112,030
Exchange differences on translation of overseas operations	–	–	–	(7,131)	(7,131)
Balance at 31 December 2003	<u>105,000</u>	<u>106,237</u>	<u>112,030</u>	<u>(7,131)</u>	<u>316,136</u>
Profit for the year ended 31 December 2004	–	–	128,302	–	128,302
Exchange differences on translation of overseas operations	–	–	–	1,569	1,569
Balance at 31 December 2004	<u>105,000</u>	<u>106,237</u>	<u>240,332</u>	<u>(5,562)</u>	<u>446,007</u>
Profit for the year ended 31 December 2005	–	–	432,071	–	432,071
Exchange differences on translation of overseas operations	–	–	–	20,384	20,384
Dividends paid	–	–	(367,500)	–	(367,500)
Balance at 31 December 2005	<u>105,000</u>	<u>106,237</u>	<u>304,903</u>	<u>14,822</u>	<u>530,962</u>

CONSOLIDATED CASH FLOW STATEMENTS

	<i>Year ended</i>		<i>14 Month</i>
	<i>31 December</i>		<i>period ended</i>
	<i>2005</i>	<i>2004</i>	<i>31 December</i>
	£	£	£
Operating activities			
Profit for the year / period	432,071	128,302	112,030
Adjustment for			
Depreciation	20,366	32,829	33,749
Loss / (profit) on disposal	–	–	(24,228)
	<u>452,437</u>	<u>161,131</u>	<u>121,551</u>
Operating cash flows before movements in working capital	452,437	161,131	121,551
Decrease/(increase) in receivables	(63,254)	(137,245)	129,449
(Increase) in inventories	(3,230)	(22,464)	(6,720)
Increase in payables	374,550	99,270	124,617
	<u>760,503</u>	<u>100,692</u>	<u>368,897</u>
Net cash used in operating activities	760,503	100,692	368,897
Investing activities			
Proceeds from disposal of property plant and equipment	–	–	101,083
Purchases of property plant and equipment	(21,762)	(21,555)	(17,501)
Acquisition of subsidiary	–	–	(571,825)
	<u>(21,762)</u>	<u>(21,555)</u>	<u>(488,243)</u>
Net cash used in investing activities	(21,762)	(21,555)	(488,243)
Financing activities			
Repayment of borrowings	–	–	(41,241)
Capital contributions	–	–	211,137
Dividends paid	(367,500)	–	–
	<u>(367,500)</u>	<u>–</u>	<u>169,896</u>
Net cash provided by financing activities	(367,500)	–	169,896
Net increase in cash and cash equivalents	371,241	79,137	50,550
Cash and cash equivalents at beginning of year / period	124,125	43,419	–
	<u>20,384</u>	<u>1,569</u>	<u>(7,131)</u>
Effect of foreign exchange rate changes	20,384	1,569	(7,131)
Cash and cash equivalents at end of year / period	<u>515,750</u>	<u>124,125</u>	<u>43,419</u>

NOTES TO THE FINANCIAL INFORMATION

1. FINANCIAL INFORMATION

Dillistone was incorporated as “Quayshelfco 967 Limited” in England and Wales on 21 October 2002, and changed its name to Dillistone Group Limited on 30 January 2003.

On 8 January 2003 the company acquired the entire share capital of Custom Business Systems Limited, which itself was a parent company to Dillistone Systems Limited and Dillistone Systems (US) Inc. Dillistone Systems Limited has a wholly owned subsidiary in Dillistone Systems (Australia) Pty Limited. The principal activity of the group is the sale of specialist computer software and the provision of related support services.

The individual companies were incorporated as follows:

- Custom Business Systems Limited – incorporated in England and Wales in 1989
- Dillistone Systems Limited – incorporated in England and Wales in 1986
- Dillistone Systems (US) Inc – incorporated in the United States in 1997
- Dillistone Systems (Australia) Pty Limited – incorporated in Australia in 1998

The financial information for the relevant periods is set out below for the period ended 31 December 2003 and the years ended 31 December 2004 and 2005 and is based on the audited financial statements for those periods.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In the presented financial information, Dillistone has adopted all of the Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB current at 31 December 2005 that are relevant to its operations. The adoption of these new and revised Standards and Interpretations has resulted in changes to Dillistone’s accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- ***Borrowing Costs***

Under IAS 23 Dillistone’s borrowing costs are treated as an expense in the period in which they are incurred, regardless of how the borrowings have been applied. In the previously reported financial statements these borrowing costs had been capitalised and were being amortised over the life of the loan. The revision to treatment has resulted in an impact on Dillistone’s reported profits for the relevant years.

- ***Goodwill***

Under IAS 38 goodwill is stated at cost and subjected to annual impairment reviews. In previously reported financial statements goodwill was written off over its estimated useful economic life. The revision to treatment has resulted in an impact on Dillistone’s reported profits for the relevant years.

The impact of these changes in accounting policies and impact on the results for the relevant periods is disclosed in note 22.

3. SIGNIFICANT ACCOUNTING POLICIES

- (a) ***Basis of accounting***

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The most significant accounting policies are described below.

(b) **Presentation currency and foreign currencies**

The financial information is presented in UK pounds sterling.

Transactions in currencies other than pounds sterling are recorded at the average rates of exchange for the accounting period. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange difference arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising if any, are classified as equity and transferred to the Group's translation reserve.

(c) **Going Concern**

These financial statements have been drawn up on the going concern basis.

(d) **Basis of consolidation**

The consolidated financial statements incorporate the results, assets and liabilities of Dillistone and its subsidiary undertakings, as if it were a single entity. The financial statements incorporate the financial statements of Dillistone and entities controlled by Dillistone (its subsidiaries).

Control is achieved where Dillistone has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired during the periods are included in the consolidated income statement from the effective date of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(e) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Sales of goods are recognised when goods are delivered and title has passed.

Revenue from support contracts is recognised evenly over the life of the contract. Revenue from the sale of software licences is recognised when the software has been installed and has gone live on the customer's system. Any invoices that are raised in advance of licence installation or in advance of support contracts are not recognised as income, and are included in deferred income.

(f) **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, on a straight line basis as follows:

Office and computer equipment	2 years
Fixture and fittings	4 years
Leasehold improvements	Over lease period

Freehold property is not subject to depreciation on the basis that its residual value is considered to be greater than its carrying value.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(g) ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Inventories relate to software licenses held for resale.

(h) ***Operating lease agreements***

Rentals applicable to operating leases where substantially all the benefits and risks remain with the lessor are charged against profits on a straight line basis over the period of the lease.

(i) ***Borrowing costs***

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) ***Cash and cash equivalents***

Dillistone considers short-term unrestricted highly liquid investments that are readily convertible into cash, purchased with maturities of three months or less to be cash equivalents.

(k) ***Trade receivables***

Trade receivables are recognised and carried at the original invoice amount. An estimate for doubtful amounts is made when collection of the full amount is no longer probable.

(l) ***Goodwill***

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

(m) ***Taxation***

The tax expense represents the sum of the tax currently payable and deferred tax.

4. REVENUE

Geographical segments

The following table provides an analysis of Dillistone's sales by geographic market.

	<i>Year ended</i>		<i>14 Month</i>
	<i>31 December</i>		<i>period ended</i>
	<i>2005</i>	<i>2004</i>	<i>31 December</i>
	£	£	£
UK	1,213,607	987,907	945,651
Europe	520,377	348,402	379,771
USA	460,499	277,065	281,554
Australia and Asia Pacific	321,018	211,523	154,663
Africa	14,812	–	–
	<u>2,530,313</u>	<u>1,824,897</u>	<u>1,761,639</u>

Business Segment

The following table provides an analysis of Dillistone's sales by business segment.

	<i>Year ended</i>		<i>14 Month</i>
	<i>31 December</i>		<i>period ended</i>
	<i>2005</i>	<i>2004</i>	<i>31 December</i>
	£	£	£
Recurring income	977,713	838,065	745,002
Non-recurring income	<u>1,552,600</u>	<u>986,832</u>	<u>1,016,637</u>
	<u>2,530,313</u>	<u>1,824,897</u>	<u>1,761,639</u>

Recurring income includes all support services, and web hosting income. Non-recurring income includes sales of new licenses, and income derived from installing those licenses including training, installation, and data translation.

5. SEGMENT INFORMATION

Geographical segments information

The following tables provide an analysis of Dillistone's result, assets, liabilities, and additions.

Result

	<i>Year ended 31 December</i>		<i>14 Month period ended</i>
	<i>2005</i>	<i>2004</i>	<i>31 December</i>
	<i>£</i>	<i>£</i>	<i>2003</i>
			<i>£</i>
UK	227,137	7,683	5,451
Europe	352,795	229,584	247,163
USA	168,965	39,530	5,769
Australia and Asia Pacific	131,982	120,600	86,454
Africa	13,677	–	–
	<u>894,555</u>	<u>397,397</u>	<u>344,837</u>
Unallocated expenses	265,407	217,756	179,087
Profit from operations	<u><u>629,148</u></u>	<u><u>179,641</u></u>	<u><u>165,750</u></u>

Unallocated expenses comprise directors' emoluments, foreign exchange losses on consolidation, and 25 per cent. of travel costs.

Assets

	<i>Year ended 31 December</i>		<i>14 Month period ended</i>
	<i>2005</i>	<i>2004</i>	<i>31 December</i>
	<i>£</i>	<i>£</i>	<i>2003</i>
			<i>£</i>
UK	724,626	391,985	299,218
Europe	185,649	95,752	133,175
USA	239,252	274,679	164,912
Australia and Asia Pacific	132,169	59,775	67,980
	<u>1,281,696</u>	<u>822,191</u>	<u>665,285</u>
Unallocated assets – goodwill	494,393	494,393	494,393
Total assets	<u><u>1,776,089</u></u>	<u><u>1,316,584</u></u>	<u><u>1,159,678</u></u>

Liabilities

	<i>Year ended 31 December</i>		<i>14 Month period ended</i>
	<i>2005</i>	<i>2004</i>	<i>31 December</i>
	<i>£</i>	<i>£</i>	<i>2003</i>
			<i>£</i>
UK	842,594	529,385	577,374
Europe	130,636	134,182	109,797
USA	186,840	146,698	112,579
Australia and Asia Pacific	85,057	60,312	43,792
	<u>1,245,127</u>	<u>870,577</u>	<u>843,542</u>

Additions

	<i>Year ended 31 December</i>		<i>14 Month period ended 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
UK	21,538	15,675	17,501
Europe	–	–	–
USA	–	1,708	–
Australia and Asia Pacific	224	4,172	–
	<u>21,762</u>	<u>21,555</u>	<u>17,501</u>

6. FINANCE COSTS

	<i>Year ended 31 December</i>		<i>14 Month period ended 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Interest payable	–	(2,104)	(13,119)
Interest receivable	2,699	113	7
	<u>2,699</u>	<u>(1,991)</u>	<u>(13,112)</u>

7. TAX EXPENSE

	<i>Year ended 31 December</i>		<i>14 Month period ended 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Current tax	200,800	50,476	43,855
Deferred tax	(1,024)	(1,128)	(903)
Income tax expense for the year / period	<u>199,776</u>	<u>49,348</u>	<u>42,952</u>

Factors affecting the tax charge for the year:

	<i>Year ended 31 December</i>		<i>14 Month period ended 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Profit before tax	<u>631,847</u>	<u>177,650</u>	<u>154,982</u>
Effective rate of taxation	29.47%	21.86%	21.00%
Profit before tax multiplied by the effective rate of tax	186,205	38,834	32,546
Effects of:			
Consolidation adjustments	11,914	4,209	2,066
Intercompany dividends	9,500	–	–
Non deductible expenses	36	2,720	5,007
Depreciation add back	2,740	3,354	3,786
Capital allowances	(4,854)	(3,084)	(4,112)
Adjustments to previous periods	(4,741)	4,443	4,562
Current tax charge	<u>200,800</u>	<u>50,476</u>	<u>43,855</u>

8. PROFIT FROM OPERATIONS

Profit from operations is stated after charging / (crediting):

	<i>Year ended 31 December</i>		<i>14 Month period ended 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Depreciation of property, plant and equipment	22,499	32,469	34,019
Net foreign exchange losses / (gains)	50,128	3,471	(470)
Staff costs	963,798	993,691	1,023,773
Auditors remuneration – for audit services	17,370	15,537	11,219
– for non-audit services	14,450	14,114	7,134

9. STAFF COSTS

The average number of employees (including creative directors) was:

	<i>Year ended 31 December</i>		<i>14 Month period ended 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
Operations	31	32	28
Management	4	3	3
Employee numbers	<u>35</u>	<u>35</u>	<u>31</u>

Their aggregate remuneration comprised:

	<i>Year ended 31 December</i>		<i>14 Month period ended 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Wages and salaries	829,017	892,440	903,400
Social security costs	117,976	94,833	101,185
Pension costs	16,805	6,418	19,188
	<u>963,798</u>	<u>993,691</u>	<u>1,023,773</u>

10. GOODWILL

	<i>Goodwill £</i>
Cost at 31 October 2002	–
Additions on acquisition of subsidiary	494,393
At 31 December 2003, 2004, 2005	<u>494,393</u>

Goodwill arose on the acquisition of Custom Business Systems Limited on 8 January 2003. In accordance with IAS 38 no amortisation has been charged against goodwill, a treatment which differs from the treatment in accordance with UK GAAP. Further details of this are disclosed in note 22.

11. PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i> £	<i>Office & computer equipment</i> £	<i>Fixtures and fittings</i> £	<i>Total</i> £
Cost				
At 31 October 2002	–	–	–	–
On acquisition of subsidiary	109,999	197,434	23,100	330,533
Additions	–	17,501	–	17,501
Disposals	(76,584)	(9,340)	–	(85,924)
Foreign exchange gain/(loss)	2,679	(2,880)	(1,513)	(1,714)
At 31 December 2003	36,094	202,715	21,587	260,396
Additions	–	21,555	–	21,555
Disposals	–	(22,406)	–	(22,406)
Foreign exchange gain/(loss)	(2,089)	(1,706)	(472)	(4,267)
At 31 December 2004	34,005	200,158	21,115	255,278
Additions	–	21,762	–	21,762
Disposals	(34,005)	(99,073)	–	(133,078)
Foreign exchange gain/(loss)	–	135	–	135
At 31 December 2005	–	122,982	21,115	144,097
Accumulated Depreciation				
At 31 October 2002	–	–	–	–
On acquisition of subsidiary	4,800	179,270	18,790	202,860
Charge for the period	10,811	19,648	3,560	34,019
Eliminated on disposal	–	(9,069)	–	(9,069)
Foreign exchange gain/(loss)	(829)	(3,178)	(1,513)	(5,520)
At 31 December 2003	14,782	186,671	20,837	222,290
Charge for the year	10,712	21,007	750	32,469
Eliminated on disposal	–	(22,406)	–	(22,406)
Foreign exchange gain/(loss)	(321)	(1,500)	(472)	(2,293)
At 31 December 2004	25,173	183,772	21,115	230,060
Charge for the year	9,806	12,693	–	22,499
Eliminated on disposal	(34,979)	(99,073)	–	(134,052)
Foreign exchange gain/(loss)	–	245	–	245
At 31 December 2005	–	97,637	21,115	118,752
Carrying Amount				
At 31 December 2003	21,312	16,044	750	38,106
At 31 December 2004	8,832	16,386	–	25,218
At 31 December 2005	–	25,345	–	25,345

12. INVENTORIES

	<i>As at 31 December</i>		
	2005	2004	2003
	£	£	£
Licences for resale	32,414	29,184	6,720

13. TRADE AND OTHER RECEIVABLES

	<i>As at 31 December</i>		
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	£	£	£
Trade and other receivables	618,056	426,960	446,608
Other current assets	26,014	150,371	6,454
Receivables due after one year	–	19,090	20,603
Prepayments and accrued income	64,117	47,243	31,140
	<u>708,187</u>	<u>643,664</u>	<u>504,805</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value. No interest is charged on trade receivables for the first 30 days from the date of the invoice. Thereafter, interest is charged on the outstanding balance.

Receivables due in greater than one year related to property rent deposits.

14. TRADE AND OTHER PAYABLES

	<i>As at 31 December</i>		
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	£	£	£
Bank loans and overdrafts	–	–	72,235
Trade and other payables	84,517	109,791	98,855
Other payables	49,378	9,078	11,951
Taxation	162,122	34,707	48,857
VAT	67,863	43,904	55,712
Deferred income	849,254	651,919	543,831
Accruals	31,993	21,178	12,101
	<u>1,245,127</u>	<u>870,577</u>	<u>843,542</u>

Trade payables and accruals comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade payables approximates their fair value.

15. SHARE CAPITAL

Total share capital is £105,000 representing 105,000 £1 ordinary shares.

16. CAPITAL RESERVES

The movement on capital reserves is shown in the consolidated statement of changes in equity.

17. OPERATING LEASE ARRANGEMENTS

At 31 December 2005 the group had annual commitments under non-cancellable operating leases as follows:

	<i>Land and Buildings</i>		
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	£	£	£
Expiry date:			
Between two and five years	<u>11,742</u>	<u>75,197</u>	<u>76,508</u>

18. CONTINGENT LIABILITIES

Dillistone has no significant contingent liabilities at 31 December 2005.

19. EVENTS AFTER THE BALANCE SHEET DATE

During the post balance sheet period, the company re-registered as a public limited company, adopted new Articles of Association, and reorganised the group capital structure such that the intermediate holding company, Custom Business Systems Limited, was eliminated from the group structure.

During the post balance sheet period, steps were taken to enter a new lease arrangement for the London premises of Dillistone Systems Limited. The costs of the move are expected to be in the region of £140,000.

An employee share option scheme was established to enable the company to grant tax approved and non-tax approved options. On the 3rd May 2006 a total of 7,010 options were granted to 39 employees at an exercise price of £8 per share.

20. RELATED PARTY TRANSACTIONS

Ultimate controlling party

The ultimate controlling parties, by way of their significant holding of shares in Dillistone, are:

	<i>Ordinary Shares</i>
R Howard	25%
J Starr	25%
J McLaughlin	21.4%

Transactions between Dillistone and its subsidiaries, which are related parties of Dillistone, have been eliminated on consolidation.

Remuneration of key personnel

The remuneration of the directors, who are the key management personnel of Dillistone, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	<i>Year ended 31 December</i>		<i>14 Month period ended 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Short-term employee benefits	190,542	175,323	153,328
Post-employment benefits	1,620	1,620	900
	<u>192,162</u>	<u>176,943</u>	<u>154,228</u>

Other related party transactions

In order to secure the future of Dillistone Systems (US) Inc during the period August 2004 to January 2005, Dillistone Systems (US) Inc occupied premises rented from Dillistone LLP, a US partnership in which the Shareholders of Dillistone Group Limited held a material interest. During that period the total rent payable under the rental agreement was £1,240 (2004: £6,170).

Dillistone Systems (US) Inc loaned US\$220,541 to Dillistone LLP during the year ended 31 December 2004 as additional support for the purchase of the property. The loan was interest free. A balance of US\$Nil (2004: US\$220,541) remained outstanding at the year end. The loan was repaid in full in February 2005 when Dillistone Systems (US) Inc moved to alternative accommodation.

During the relevant periods certain related individuals, who were employees of Dillistone, were reimbursed expenses relating to their roles within Dillistone. These expenses related to the performance of their duties and no financial benefit was obtained by the employees.

21. SUBSIDIARIES

Details of Dillistone's subsidiaries at 31 December 2005 are as follows:

<i>Name of subsidiary</i>	<i>Place of incorporation or registration</i>	<i>Proportion of ownership interest</i>	<i>Proportion of voting power</i>	<i>Principal activity</i>
Custom Business Systems Ltd	UK	100%	100%	Holding company (non-trading)
Dillistone Systems Ltd	UK	100%	100%	Software selling & related support services
Dillistone Systems (US) Inc	USA	100%	100%	Software selling & related support services
Dillistone Systems (Australia) Pty Limited	Australia	100%	100%	Software selling & related support services

All of the above entities are limited liability companies and ownership interest is gained via the holding of ordinary shares which have voting rights attached.

22. RECONCILIATION OF RESULTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS TO RESULTS PREVIOUSLY REPORTED

In the presented financial information, Dillistone has adopted all of the Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB ("International Accounting Standards") current at 30 June 2005 that are relevant to its operations.

Previously Dillistone had prepared unaudited financial information under Accounting Standards applicable in the UK, USA or Australia. The adoption of these new and revised International Standards and Interpretations has resulted in changes to Dillistone's accounting policies that have affected the amounts reported for the current or prior years.

The following summary shows the key reconciling items between the financial information under International Accounting Standards and as previously reported:

	<i>Year ended 31 December</i>		<i>14 Month period ended 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Profit for the period under International Accounting Standards	432,071	128,302	112,030
Reconciling items:			
Adjustment 1	–	(743)	–
Adjustment 2	(24,720)	(24,720)	(24,720)
Consolidated profit for the period under local accounting standards	<u>407,351</u>	<u>102,839</u>	<u>87,310</u>
Adjustment 3	5,208	11,578	12,555
Adjustment 4	<u>(19,614)</u>	<u>9,807</u>	<u>9,807</u>
Consolidated profit for the period before adjustments for compliance with local accounting standards	<u><u>392,945</u></u>	<u><u>124,224</u></u>	<u><u>109,672</u></u>

Summary of adjustments

Adjustment 1 – Borrowing costs

Under IFRS Dillistone's borrowing costs are treated as an expense in the period in which they are incurred, regardless of how the borrowings have been applied. In the previously reported financial statements these borrowing costs had been capitalised as Intangible Assets and were being amortised over the life of the loan. The revision to treatment has resulted in an impact on Dillistone's reported profits for the relevant years.

Adjustment 2 – Goodwill

Under IFRS goodwill is stated at cost and subjected to annual impairments reviews. In previously reported financial statements goodwill was written off over its estimated useful economic life. The revision to treatment has resulted in an impact on Dillistone's reported profits for the relevant years.

Adjustment 3 – Revenue recognition

Under IFRS and UK GAAP license revenue is recognised on completion of the installation of the licence. In previous periods the group companies recognised license revenue as amounts were invoiced. The adjustment is necessary in order to be compliant with IFRS and UK GAAP.

Adjustment 4 – Depreciation of leasehold improvements

Under IFRS and US GAAP leasehold improvements are depreciated over the remaining lease period. In the previously reported accounts for Dillistone Systems (US) Inc this had not been the case. The adjustment is necessary in order to be compliant with IFRS and US GAAP.

PART IV

ADDITIONAL INFORMATION

1. The Company

- 1.1 The Company was incorporated and registered as a private limited company in England and Wales under the Act on 31 October 2002 with the name Quayshelfco 967 Limited and with registered number 04578125. On 30 January 2003 the Company changed its name to Dillistone Group Limited. On 7 June 2006, the Company was re-registered as a public company with the name Dillistone Group Plc.
- 1.2 The Company is a public limited company and accordingly the liability of its members is limited. The Company and its activities and operations are principally regulated by the Act and the regulations made under that Act.
- 1.3 The head and registered office of the Company is at Calvert House, 5 Calvert Avenue, London E2 7JP. The telephone number of the Company is +44 (0) 20 7749 6100.

2. Share capital and loan capital

- 2.1 The share capital history of the Company is as follows:
 - (a) the Company was incorporated with an authorised share capital of 1,000 ordinary shares of £1 each and one ordinary share of £1 was subscribed for and allotted to the subscriber to the Memorandum of Association of the Company, which was then transferred to James McLaughlin;
 - (b) by a resolution passed on 6 December 2002:
 - (i) the authorised share capital of the Company was increased to £69,500 by the creation of 68,500 ordinary shares of £1 each; and
 - (ii) the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to allot relevant securities (as defined in that section of that Act) up to an aggregate nominal amount of £69,499, such authority to expire on 6 December 2007;
 - (c) on 6 December 2002 the Company issued an aggregate of 69,499 ordinary shares of £1 each for cash at par;
 - (d) by a resolution passed on 8 January 2003:
 - (i) the authorised share capital of the Company was increased to £105,000 by the creation of 35,500 ordinary shares of £1 each; and
 - (ii) the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to allot relevant securities (as defined in that section of that Act) up to an aggregate nominal amount of £35,500, such authority to expire on 8 January 2008;
 - (e) on 8 January 2003 the Company issued an aggregate of 35,500 ordinary shares of £1 each for cash at a premium of £7 per share; and
 - (f) by a written resolution of the Company dated 6 June 2006:
 - (i) each ordinary share of £1 each in the capital of the Company was sub-divided into 20 Ordinary Shares;
 - (ii) the authorised share capital of the Company was increased to £500,000 by the creation of 7,900,000 Ordinary Shares; and
 - (iii) a bonus issue of Ordinary Shares was made, with 31 Ordinary Shares being allotted to each shareholder for every 21 Ordinary Shares then held by them.
- 2.2 Pursuant to a written resolution of the Company dated 6 June 2006, the Directors are generally and unconditionally authorised pursuant to section 80 of the Act to allot relevant securities (as defined in that section) up to an aggregate nominal amount equivalent to the authorised and unissued share capital of the Company, such authority to be limited to the allotment of:
 - (a) 200,000 Ordinary Shares pursuant to the Placing;
 - (b) 344,179 Ordinary Shares in respect of options granted under the Share Option Schemes;

- (c) relevant securities other than pursuant to sub-paragraphs (a) and (b) above, having an aggregate nominal value equal to £90,000, representing approximately one third in nominal value of the ordinary share capital of the Company in issue immediately following the Placing,

such authority to expire at the conclusion of the next Annual General Meeting of the Company, except that the Directors can during the period make offers or arrangements which could or might require the allotment of relevant securities after the expiry of such period.

- 2.3 Pursuant to a written resolution of the Company dated 6 June 2006, the Directors are empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94(2) of the Act) of the Company for cash pursuant to the authority of the Directors under section 80 of the Act conferred by paragraph 2.2 above for the duration of such authority, and/or where such an allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Act, as if the provisions of section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to:

- (a) the allotment of equity securities which fall within sub-paragraphs (a) and (b) of paragraph 2.2 above;
- (b) the allotment of equity securities in connection with an invitation or offer of equity securities to the holders of ordinary shares in the capital of the Company (excluding any shares held by the Company as treasury shares (as defined in section 162A(3) of the Act)) on a fixed record date in proportion (as nearly as practicable) to their respective holdings of such shares or in accordance with the rights attached to such shares (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or as a result of legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory or otherwise howsoever); and
- (c) the allotment (other than pursuant to the power referred to in sub-paragraphs (a) and (b) (inclusive) above) of equity securities up to an aggregate nominal value equal to £13,500, representing approximately five per cent. in nominal value of the ordinary share capital of the Company in issue immediately following the Placing,

and the Company may, prior to the expiry of such power, make any offer or agreement which requires or might require equity securities to be allotted after the expiry of such period.

- 2.4 As at 31 December 2005, being the latest date to which audited accounts for the Company have been prepared, the authorised and issued share capital of the Company, of which all of the issued shares were fully paid up, was as follows:

<i>Authorised</i>			<i>Issued</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
105,000	£105,000	ordinary shares of £1	105,000	£105,000

- 2.5 The following table shows the authorised and issued share capital of the Company as it is expected to be immediately before and immediately following the Placing and Admission:

Before the Placing and Admission

<i>Authorised</i>			<i>Issued</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
10,000,000	£500,000	Ordinary Shares	5,200,000	£260,000

After the Placing and Admission

<i>Authorised</i>			<i>Issued</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
10,000,000	£500,000	Ordinary Shares	5,400,000	£270,000

- 2.6 Details of the total number of options (all granted for nil consideration) under the Share Option Scheme outstanding as at 13 June 2006 (being the latest practicable date prior to the publication of this document) are as follows:

Unapproved Options:

<i>Date of grant</i>	<i>Number of Ordinary Shares under option</i>	<i>Exercise price per Ordinary Share (p)</i>	<i>Normal exercise period</i>
3 May 2006	114,397	16.154	3 May 2009 – 3 May 2016

EMI Options:

<i>Date of grant</i>	<i>Number of Ordinary Shares under option</i>	<i>Exercise price per Ordinary Share (p)</i>	<i>Exercise period</i>
3 May 2006	229,782	16.154	3 May 2009 – 3 May 2016

- 2.7 Of the balance of the authorised but unissued share capital of the Company immediately following Admission, amounting to 4,600,000 Ordinary Shares:

- 1,800,000 Ordinary Shares will remain unissued and unreserved, which the Directors will be authorised to allot pursuant to the authority referred to in paragraph 2.2 above;
- 344,179 Ordinary Shares will be reserved for issue in respect of options granted under the Share Option Schemes; and
- 2,455,821 Ordinary Shares will remain unissued and unreserved which the Directors will not be authorised to allot.

- 2.8 The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on the Shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash and apply to the authorised but unissued equity share capital of the Company. These provisions have been disapplied to the extent referred to in paragraph 2.3 above.

- 2.9 Save as mentioned in this paragraph 2:

- no unissued share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- there are no shares in the capital of the Company currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived;
- there are no outstanding convertible securities issued by the Company; and
- no share capital or loan capital of the Company or any of its subsidiaries (other than intra-group issues by wholly-owned subsidiaries) is in issue and no such issue is proposed.

- 2.10 None of the Ordinary Shares has been sold or made available to the public in conjunction with the application for Admission.

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

- 2.12 The Ordinary Shares are in registered form and capable of being held in uncertificated form. Application has been made to CRESTCo for the Ordinary Shares to be enabled for dealings through CREST as a participating security. No temporary documents of title will be issued. It is expected that definitive share certificates will be posted to those Shareholders who have requested the issue of Ordinary Shares in certificated form by 22 June 2006. The ISIN for the Ordinary Shares is GB00B13QQB40.

- 2.13 The Placing Price of 125 pence per Ordinary Share represents a premium of 120 pence over the nominal value of 5 pence per Ordinary Share and is payable in full on Admission under the terms of the Placing.

3. Subsidiary undertakings

- 3.1 The Company is the holding company of the Group.

- 3.2 The Company currently has the following significant trading subsidiaries, all of which are wholly owned and carry on the same business, being the development and supply of software to the recruitment sector:

<i>Name</i>	<i>Registration number</i>	<i>Place of incorporation</i>
Dillistone Systems Limited	02043300	England and Wales
Dillistone Systems (Australia) Pty Limited	CAN 085730810	Australia
Dillistone Systems (US) Inc	0100780518	New York* USA

* Dillistone Systems (US) Limited is currently incorporated under the laws of New Jersey, USA.

- 3.3 On 6 June 2006, Custom Business Systems Limited (registration number 02434159), a non-trading wholly owned subsidiary of the Company, transferred the entire issued share capitals of Dillistone Systems Limited and Dillistone Systems (US) Inc to the Company by way of a dividend in specie. Following these transfers, Custom Business Systems Limited continues to be a non-trading subsidiary and the Directors intend to apply for its dissolution in due course.

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

4.1 Memorandum of Association

The Memorandum of Association of the Company provides that the principal objects of the Company are, *inter alia*, to carry on business as a general commercial company. The objects of the Company are set out in full in clause 4 of the Memorandum of Association.

4.2 Articles of Association

The Articles, which were adopted, conditional on Admission, by a written resolution of the Company dated 6 June 2006, contain, *inter alia*, provisions to the following effect:

(a) *Rights attaching to Ordinary Shares*

(i) Voting rights

Subject to the provisions of the Act and to any rights or restrictions as to voting attached to any class of shares, at any general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative has one vote, and on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for each share of which he is the holder. A member of the Company shall not be entitled, in respect of any share held by him, to vote (either personally or by proxy) at any general meeting of the Company unless all amounts payable by him in respect of that share in the Company have been paid or credited as having been paid;

(ii) Dividends

Subject to the provisions of the Act and of the Articles and to any special rights attaching to any shares, the Company may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Board. All dividends shall be apportioned and paid *pro rata* according to the amounts paid up or credited as paid up (otherwise than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. Interim dividends may be paid provided that they appear to the Board to be justified by the profits available for distribution and the financial position of the Company. Unless otherwise provided by the rights attached to any share, no dividends in respect of a share shall bear interest. The Board may, with the prior authority of an ordinary resolution of the Company, offer the holders of ordinary shares the right to elect to receive ordinary shares credited as fully paid instead of cash in respect of all or part of any dividend. Any dividend unclaimed after a period of 12 years from the date on which the dividend became due for payment shall be forfeited and shall revert to the Company.

(iii) Return of capital

On a winding-up of the Company, the surplus of assets available for distribution shall be divided among the members in proportion to the amounts paid up on their respective shares at the commencement of the winding-up or, with the sanction of an extraordinary resolution of the Company, be divided amongst the members in specie in such manner as shall be determined by the liquidator.

(b) *Transfer of shares*

Save in the case of shares which have become participating securities for the purposes of the CREST Regulations, title to which may be transferred by means of a relevant system such as CREST without a written instrument, all transfers of shares must be effected by an instrument of transfer in writing in any usual form or in any other form approved by the Board. The instrument of transfer shall be executed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of certificated shares unless:

- (i) it is in respect of a share which is fully paid up;
- (ii) it is in respect of a share on which the Company has no lien;
- (iii) it is in respect of only one class of share;
- (iv) it is in favour of a single transferee or not more than four joint transferees;
- (v) it is duly stamped (if required); and
- (vi) it is lodged at the registered office together with the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer,

provided that the Board may not exercise such discretion in such a way as to prevent dealing from taking place on an open and proper basis.

The Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of an uncertificated share which is in favour of more than four persons jointly or in any other circumstances permitted by the CREST Regulations (subject to any relevant requirements of the London Stock Exchange).

If the Board refuses to register a transfer it must, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee.

The registration of transfers may be suspended by the Board for any period (not exceeding 30 days) in any year.

(c) *Disclosure of interests in shares*

Part VI of the Act governs the circumstances in which a person may be required to disclose his interests in the share capital of the Company. *Inter alia*, this requires a person who is interested in three per cent or more of the Company's issued ordinary share capital to notify his interest to the Company (and, above that level, any change in such interest equal to one per cent or more). In addition, the City Code on Takeovers and Mergers and the Rules Governing Substantial Acquisitions of Shares published by the Panel on Takeovers and Mergers contain further provisions pursuant to which a person may be required to disclose his interests in the share capital of the Company.

Pursuant to the Articles, if a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 212 of the Act and has failed in relation to any shares (the "default shares") to give the Company the information thereby required within the prescribed period from the date of the notice, the following sanctions shall apply:

- (i) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and
- (ii) where the default shares represent at least 0.25 per cent in nominal value of their class:
 - (A) any dividend or other money payable in respect of the shares shall be withheld by the Company which shall not have any obligation to pay interest on it and the member shall

not be entitled to elect in the case of a scrip dividend to receive shares instead of that dividend; and

- (B) no transfer, other than an approved transfer as defined in the Articles pursuant to a takeover offer of the Company or a bona fide sale to an unconnected third party, of any shares held by the member shall be registered unless:
- the member is not himself in default as regards supplying the information required; and
 - the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

The above sanctions shall also apply to any shares in the Company issued in respect of the default shares (whether on capitalisation, a rights issue or otherwise).

(d) *Changes in share capital*

The Company may alter its share capital as follows:

- (i) it may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amounts, cancel any shares which have not been taken or agreed to be taken by any person and sub-divide its shares or any of them into shares of smaller amounts;
- (ii) subject to any consent required by law and to any rights for the time being attached to any shares, it may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or other undistributable reserve in any manner; and
- (iii) subject to the provisions of the Act and to any rights for the time being attached to any shares, it may with the sanction of a special resolution enter into any contract for the purchase of its own shares.

(e) *Variation of rights*

Subject to the provisions of the Act and of the Articles, the special rights attached to any class of share in the Company may be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated whilst the Company is a going concern or while the Company is or is about to be in liquidation. The quorum for such separate general meeting of the holders of the shares of the class shall be at least two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the relevant class.

(f) *General meetings*

Pursuant to the Act, an annual general meeting is required to be held every year at such time and place as may be determined by the Board. No more than 15 months may elapse between the holding of any two successive annual general meetings. The Board may convene an extraordinary general meeting whenever it thinks fit. Extraordinary general meetings may also be convened on the requisition of members pursuant to the Act.

Pursuant to the Act, 21 clear days' notice of every annual general meeting and of every extraordinary general meeting at which it is proposed to pass a special resolution and 14 clear days' notice of every other extraordinary general meeting is required to be given. The accidental omission to give notice to, or the non-receipt of such notice by, any person entitled to receive notice of the meeting will not invalidate any resolution passed or proceeding at any such meeting.

No business may be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business. Two persons entitled to attend and vote on the business to be transacted, each being a member present in person or a proxy for a member or a duly authorised representative of a corporation which is a member, constitutes a quorum.

With the consent of any meeting at which a quorum is present the chairman may adjourn the meeting. Notice of adjournment or of the business to be transacted at the adjourned meeting is not required unless the meeting is adjourned for 30 days or more. No business may be transacted at any adjourned

meeting other than the business which might have been transacted at the meeting from which the adjournment took place.

(g) *Directors' interests in contracts*

Subject to the provisions of the Act and of the Articles and provided that he has disclosed to the Board the nature and extent of any interest of his, a director of the Company, notwithstanding his office:

- (i) may be party to or otherwise interested in any transaction or arrangement with the Company or in which the Company is otherwise interested;
- (ii) may hold any other office or place of profit under the Company and may act in a professional capacity for the Company;
- (iii) may be a member of, a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by or promoting the Company or in which the Company is otherwise interested; and
- (iv) shall not, by reason of his office, be liable to account to the Company for any benefit which he derives from any such office, employment, transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be avoided on the ground of any such interest or benefit,

provided that no director of the Company or firm in which he is interested may act as auditor to any member of the group.

Save as provided below, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or any committee of the Board in respect of any contract, arrangement, transaction or any proposal whatsoever in which he has any material interest or duty which conflicts with the interests of the Company. A Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution at such meeting if his duty or interest arises only because the resolution relates to one of the following matters:

- (i) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (ii) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- (iii) where the Company or any of its subsidiary undertakings is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;
- (iv) relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in sections 198 to 211 of the Act) representing one per cent or more of either any class of the equity share capital, or the voting rights, in such company;
- (v) relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (vi) concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors.

A Director may not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested (including fixing or varying the terms of such appointment or its termination).

Where proposals are under consideration concerning the appointments (including fixing or varying the terms of the appointment) of two or more Directors, such proposals may be divided and a separate resolution considered in relation to each Director. In each case, each such Director (if not otherwise debarred from voting) is entitled to vote (and be counted in the quorum) in respect of each resolution except that resolution concerning his own appointment.

(h) *Directors*

The aggregate fees which the Directors shall be entitled to receive for their services in the office of director shall not exceed £125,000 per annum, or such other sum as may from time to time be determined by an ordinary resolution of the Company. Such sum (unless otherwise directed by the resolution of the Company by which it is approved) shall be divided among the Directors in such proportions and in such manner as the Board may determine or, in default of such determination, equally.

All of the Directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors. If by arrangement with the Board any Director performs any special duties or services outside his ordinary duties as a Director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration which may be by a lump sum or by way of salary, commission, participation in profits or otherwise as the Board may determine.

No Director is to retire from office pursuant to section 293 of the Act by reason of the fact that he has attained the age of 70 or any other age and section 293 of the Act does not apply to the Company.

(i) *Pensions and benefits*

The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities (by insurance or otherwise) for any person who is or who has at any time been a director of the Company (and for any member of his family including a spouse or former spouse or any person who is or was dependent on him). For this purpose the Board may establish, maintain, subscribe and contribute to any scheme, trust or fund and pay premiums.

(j) *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any of its undertakings, property, assets (present or future) and uncalled capital and, subject to the provisions of the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate principal amount for the time being outstanding in respect of monies borrowed or secured by the Company and its subsidiaries (exclusive of intra-group borrowings and after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed the greater of £4 million or an amount equal to 2.5 times the aggregate of:

- (i) the amount paid up (or credited as paid up) on the issued share capital of the Company; and
- (ii) the amount outstanding to the credit of the capital and revenue reserves of the Company and its subsidiaries (including any share premium account, capital redemption reserve fund and credit or debit balance on any other reserve) after adding thereto or deducting therefrom any credit or debit balance on the profit and loss account,

all as shown in the then latest published audited consolidated balance sheet of the Company and its subsidiaries but after adjustments as set out in the Articles.

5. Directors and employees

5.1 The Directors and each of their respective functions are set out in Part I of this document.

5.2 The business address of the Directors is Calvert House, 5 Calvert Avenue, London E2 7JP.

5.3 Details of the length of service of each of the Directors to date in his current office are set out below:

<i>Name</i>	<i>Age</i>	<i>Commencement date in office</i>
James McLaughlin	50	6 December 2002
Jason Starr	34	6 December 2002
Rory Howard	38	6 December 2002
Alex James	33	14 February 2006
Mike Love	58	31 May 2006

- 5.4 Details of any directorship that is or was in the last five years held by each of the Directors, and any partnership of which each of the Directors is or was in the last five years a member, in addition to their directorships of the Company and its subsidiary undertakings, are set out below:

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
James McLaughlin	Ministry of Cake Ltd (Appointed 16/08/2005) Gul International Limited (Appointed 18/11/2005) J & SL McLaughlin Ltd	Ceuta Healthcare Limited (Appointed 09/12/1996 Resigned 03/12/2001) Connaught plc (Appointed 04/06/1998 Resigned 30/10/2002) VLSI International Holdings Limited (Appointed 29/09/2000 Resigned 30/03/2004) The Bristol Society of Model and Experimental Engineers (Appointed 06/02/2002 Resigned 02/02/2005) Connaught Incubations Limited (Appointed 23/05/2000 Resigned 01/04/2005)
Jason Starr	None	None
Rory Howard	None	None
Alex James	None	None
Mike Love	WP2 Limited (Appointed 23/01/2004) Scisys Limited (Appointed 02/04/2002) Surface Technology Systems PLC (Appointed 13/11/2000) CodaScisys PLC (Appointed 08/09/1997) ClearStream Technologies Group plc (Appointed 04/10/2004)	None

- 5.5 At the date of this document none of the Directors named in this document:

- (a) has any unspent convictions in relation to indictable offences;
- (b) has been declared bankrupt or has entered into an individual voluntary arrangement;
- (c) was a director of any company at the time of or within the 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors with which such company was concerned;
- (d) was a partner in a partnership at the time of or within the 12 months preceding a compulsory liquidation, administration or partnership voluntary arrangement of such partnership;
- (e) has had his assets the subject of any receivership or was a partner in a partnership at the time of or within the 12 months preceding any assets thereof being the subject of a receivership; or
- (f) has been the subject of any public criticisms by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

- 5.6 Details of the number of the Group's employees (including creative directors, as referred to in note 9 of Part III) for each of the three financial years ended 31 October 2005 are as follows:

<i>Financial year ended</i>	<i>Average number of employees</i>
31 December 2003	31
31 December 2004	35
31 December 2005	35

- 5.7 As at 31 December 2005, the employees of the Group were employed as follows:

Management	4
Operations	31
Total	<u>35</u>

6. Directors' and other interests

- 6.1 The interests of the Directors (including the interests of persons connected with them which would, if the connected person were a Director, be required to be disclosed, and the existence of which is known to, or could with reasonable diligence be ascertained by that Director within the meaning of section 346 of the Act) in the issued share capital of the Company which are required to be notified by each Director to the Company pursuant to section 324 or 328 of the Act or are required to be entered in the register of Directors' interests referred to in section 325 of the Act (all of which, save where stated otherwise in the notes below, are beneficial interests) as at the date of this document (on the basis that the share capital reorganisation referred to in paragraph 2.1(f) had taken place) and as they are expected to be immediately following Admission are/will be as follows:

<i>Director</i>	<i>Number of Ordinary Shares (as at the date of this document)</i>	<i>Percentage of issued Ordinary Shares (as at the date of this document)</i>	<i>Number of Ordinary Shares (immediately following Admission)</i>	<i>Percentage of issued Ordinary Shares (immediately following Admission)</i>
James McLaughlin	1,114,284	21.4	1,045,712	19.4
Jason Starr	1,300,000	25	1,220,000	22.6
Rory Howard	1,300,000	25	1,220,000	22.6
Alex James	Nil	Nil	Nil	Nil
Mike Love	Nil	Nil	Nil	Nil

- 6.2 The table below sets out the name and the nature of any position, office or other material relationship that each Vendor Shareholder has had with the Company or any of its predecessors or affiliates in the last three years, and the number of Ordinary Shares proposed to be sold by each Vendor Shareholder under the Placing. The business address for each Vendor Shareholder is c/o Dillistone Group Limited, Calvert House, 5 Calvert Avenue, London E2 7JP.

<i>Vendor Shareholder</i>	<i>Relationship</i>	<i>Number of Ordinary Shares to be sold under the Placing</i>
Jim McLaughlin	Director and Founder Investor	68,572
Jason Starr	Director and investor	80,000
Rory Howard	Director and investor	80,000
Martin Hill	Founder Investor	22,857
Robert Howells	Founder Investor	22,857
Mike Bryan	Founder Investor	22,857
Giles Fearnley	Founder Investor	22,857

Following the Placing and Admission, each of Martin Hill, Robert Howells, Mike Bryan and Giles Fearnley will hold 348,572 Ordinary Shares, representing approximately 6.5 per cent. each of the issued share capital of the Company.

- 6.3 Details of the total number of options granted to the Directors under the Share Option Schemes outstanding as at 13 June 2006 (being the latest practicable date prior to the publication of this document) are as follows:

EMI Scheme:

<i>Name</i>	<i>Date of grant</i>	<i>Exercise price per Ordinary Share (p)</i>	<i>Number of Ordinary Shares under Option</i>	<i>Exercise period</i>
Alex James	3 May 2006	16.154	37,143	3 May 2009 to 3 May 2016

- 6.4 Save as disclosed above, none of the Directors nor any member of his immediate family nor any person connected with him (within the meaning of section 346 of the Act) holds or is beneficially or non-beneficially interested, directly or indirectly, in any shares or options to subscribe for, or securities convertible into, shares of the Company or any of its subsidiary undertakings.
- 6.5 Save as disclosed above, there are no persons, so far as the Company is aware, who are or will be immediately following Admission interested, directly or indirectly, in three per cent. or more of the Company's issued share capital, nor, so far as the Company is aware, are there any persons who at the date of this document or immediately following Admission, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.
- 6.6 Save as disclosed in this document, there are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in control of the Company.
- 6.7 The Company's share capital consists of one class of ordinary shares with equal voting rights (subject to the Articles). No major Shareholder of the Company has any different voting rights from the other Shareholders.
- 6.8 Save as disclosed in this document, no Director is or has been interested in any transactions which are or were unusual in their nature or conditions or significant to the business of the Company or the Group during the current or immediately preceding financial year or which were effected during any earlier financial year and remain in any respect outstanding or unperformed.
- 6.9 There are no outstanding loans or guarantees provided by the Company or the Group or to or for the benefit of any of the Directors.
- 6.10 Save as disclosed in this document, there have been no related party transactions of the kind set out in the Standards adopted according to the Regulation (EC) No 1606/2002 that the Company has entered into since 1 January 2003.
- 6.11 No Director nor any member of his immediate family nor any person connected with him (within the meaning of section 346 of the Act) has a Related Financial Product (as defined in the AIM Rules) referenced to Ordinary Shares.
- 6.12 None of the Directors are acting in concert for the purposes of The Takeover Code.

7. Directors' remuneration and service agreements

- 7.1 Dillistone has four Executive Directors and their basic details are set out below:

<i>Name</i>	<i>Position</i>	<i>Annual Salary (£)</i>
Jim McLaughlin	Executive Chairman and Finance Director	36,324
Jason Starr	Managing Director	96,533
Rory Howard	Operations Director	87,500
Alexander James	Projects Director	75,000

- 7.2 Dillistone has entered into Service Agreements with all four Executive Directors (the "Executive Service Agreements").

- (a) The Executive Service Agreements are terminable, in the case of each Executive Director, on not less than 12 months' written notice by either party. James McLaughlin is required to provide his services to the Company for a minimum of 7.5 hours per week. The other Executive Directors work full time for the Company.
 - (b) Under the terms of the Executive Service Agreements the Company may, at its sole discretion, pay any of the Executive Directors a bonus of such amount as the Board may determine in respect of each complete financial year during which the employment of that Director subsists. In respect of Alex James and Jason Starr, Dillistone also contributes an agreed amount into a personal pension scheme of their choice, of £75 per month. Rory Howard receives a cash contribution of £60 per month towards his pension arrangements. Jim McLaughlin receives no contribution.
 - (c) The basic salaries and bonuses payable to the Executive Directors are subject to annual review by the Remuneration Committee.
 - (d) Each Executive Director is subject to certain non-competition and non-solicitation covenants for a period of six months and 12 months respectively following the termination of his employment.
 - (e) The Executive Service Agreements are governed by English law.
- 7.3 Pursuant to the terms of a letter of engagement with the Company dated 31 May 2006, Mike Love has agreed to serve as a Non-Executive Director for an annual fee not exceeding £22,000 (exclusive of VAT). This appointment is for a fixed term of three years but will terminate automatically if Mr Love is removed from office by a resolution of the Shareholders or is not re-elected to office.
- 7.4 Save as disclosed in this document, there are no service agreements or agreements for the provision of services existing or proposed between the Directors and the Company or the Group.
- 7.5 In the financial year ended 31 December 2005 (being the last completed financial year of the Company), the aggregate remuneration paid, including pension contributions and benefits in kind granted to the Directors, was £172,112.
- 7.6 On the basis of the arrangements in force at the date of this document, it is estimated that the aggregate remuneration payable including pension contributions and benefits in kind granted to the Directors for the year ending 31 December 2006 (being the current financial year of the Company) will be £321,450.

8. The Share Option Scheme

The Dillistone Group Limited Share Option Scheme

The Scheme provides for the grant of tax approved enterprise management incentive share options ("EMI") and non-tax approved share options ("Unapproved Options"). The Scheme has been used for the grant of options prior to Admission. Following Admission the Scheme will be operated by the remuneration committee of the Company on the same terms.

The following is a summary of the principal features of the Scheme:

Eligibility

Any employee of the Company or of its qualifying subsidiaries who works 25 hours per week (or, if less, 75% of his or her working time) and who does not hold a material interest in the Company is eligible for the grant of EMI options. Those employees who do not fulfil these requirements will be eligible for the grant of unapproved options.

Grant of options

The Board has absolute discretion to grant options to selected eligible employees. Following Admission options may only be granted within the period of 42 days following announcement of the Company's annual or interim results, or subject to the code, at any other time if the Board consider exceptional circumstances exist. No consideration will be payable for the grant of an option. Options will be personal to participants and, except on the death of a participant, will not be transferable.

Exercise price

The exercise price is determined by the Board, but shall not be less than the higher of the nominal value of a share and the market value of a share on the grant date. Following Admission, market value shall be that agreed with Shares Valuation HMRC in the case of EMI options and the middle market quotation of a share on AIM for the three business days prior to grant in the case of unapproved options.

Individual limits

The market value of shares under any options granted pursuant to the Scheme within a twelve month period must not exceed two times the participant's annual salary. In circumstances considered exceptional by the Board, this limit may be exceeded in relation to a particular participant subject to an overall maximum of three times annual salary. There is an additional limit on the market value of shares subject to EMI options (calculated at the date of grant) granted under the Scheme and under any approved company share option scheme, of £100,000 per eligible employee.

Limit on share capital

There is a limit on the grant of options to subscribe for shares under the Scheme and any other scheme adopted by the Company of 10% of the issued ordinary share capital of the Company (measured at the date of grant) in any rolling ten year period.

The market value of shares granted pursuant to unexercised EMI options under the Scheme cannot exceed £3 million. The value of the shares is taken at the date of grant.

Exercise and lapse of options

The date and any conditions of exercise of the options are set out in the individual participant's option agreement. Options will normally become exercisable on the third anniversary of the date of their grant. Unexercised options lapse on the tenth anniversary of the date of grant.

In the event an option holder dies, to the extent that the option has become exercisable, the option holder's personal representatives may exercise the option within 12 months of the date of death. Unexercised options will lapse on the date of death, unless the Board exercises its discretion to allow exercise within the period of twelve months from the date of death.

In the event of cessation of employment, options lapse on the date of cessation unless the Board in its absolute discretion determines that all or some of the option may be exercised within a period notified to the option holder.

The options of any participant who is adjudicated bankrupt will lapse immediately.

Performance targets

The exercise of options may be subject to the satisfaction of performance conditions as determined by the Board at the time of grant.

Adjustments

In the event of any variation of the ordinary share capital of the Company, or the implementation of a demerger or payment of a dividend in specie, the number of shares under option and the exercise price may be adjusted by the Board in such manner as it deems to be fair and reasonable.

Change of control

In the event of a change of control, all unexercised options may be exercised immediately before or within a period following the change of control as notified by the Board. The Scheme allows options to be exchanged for options to acquire shares in the acquiring company with the option holder's consent, subject to certain conditions, and in the case of EMI options, the provisions of the EMI legislation.

On a demerger, dividend *in specie* or other such transaction which the Board determines will materially affect the value of the options, the Board may again permit the early exercise of such options as it determines.

Rights attaching to shares

If shares are to be allotted and issued to participants pursuant to the exercise of any option, the Company shall apply for such shares to be admitted to AIM. Such shares will rank *pari passu* with all other issued shares of the

Company except for any rights determined by reference to a date preceding the date on which the option is exercised.

Amendments and general

The Board may amend the Scheme at any time provided that no such amendment shall affect the accrued rights of participants without their consent.

No amendment to the material advantage of participants to the provisions relating to eligibility, share capital, maximum entitlement, the basis of determining a participant's entitlement or any adjustment to it can be made without the prior approval of shareholders in general meeting. Amendments to take account of legislation, to benefit administration of the Scheme or to obtain or maintain favourable tax, exchange control or regulatory treatment of the Scheme may be made without the approval of the Company in general meeting, provided they do not affect the basic principles of the Scheme.

The rules of the Scheme contain provisions to ensure compliance with the requirements for making deductions under the PAYE system in respect of employee Class 1 national insurance contributions (or their equivalent in any foreign jurisdiction). The rules also provide for employer Class 1 national insurance contributions to be paid by the participant if the Board requires.

Benefits under the Scheme will not be pensionable.

9. Taxation

The following information is intended only as a general guide to the position under current United Kingdom law and HMRC practice as at the date of this document for shareholders who are the beneficial owners of Ordinary Shares, resident or ordinarily resident in the United Kingdom for tax purposes and who hold their Ordinary Shares as an investment and is not a substitute for the investors obtaining professional advice before buying shares. Its applicability will depend upon the particular circumstances of individual shareholders. The summary is not exhaustive and does not generally consider tax reliefs or exemptions.

(a) *United Kingdom Residents*

(i) *Taxation on chargeable gains*

If a Shareholder disposes of all or any of the Ordinary Shares acquired under the Placing he or she may, depending on the Shareholder's particular circumstances, incur a liability to taxation on chargeable gains. Individuals, personal representatives and trustees may be entitled to taper relief. Companies which hold shares as investments may be entitled to an indexation allowance to reduce the gain chargeable.

(ii) *Stamp Duty and Stamp Duty Reserve Tax*

Except in relation to certain categories of person, including market makers, brokers, dealers and persons connected with depository arrangements or clearance services, where special rules apply, no stamp duty or stamp duty reserve tax will be payable on the issue of the Placing Shares.

The transfer or sale of Ordinary Shares will normally be subject to ad valorem stamp duty (rounded up to the nearest £5) at the rate of one-half of one per cent. of the consideration paid. However, if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer, stamp duty reserve tax will be payable, normally at the rate of one-half of one per cent. of the consideration paid.

(iii) *Taxation of dividends and distributions*

Under current United Kingdom tax legislation, no withholding tax will be deducted from dividends paid by the Company.

An individual Shareholder who is resident in the United Kingdom for tax purposes and who receives a dividend will be entitled to a tax credit in respect of the dividend and will be taxable on the aggregate of the net dividend received and the tax credit (such aggregate being the "gross dividend"). The value of the tax credit is currently one ninth of the net dividend (or 10 per cent. of the "gross dividend"). The gross dividend is treated as the top slice of such individual's income. An individual so resident who is not liable to income tax in respect of the gross dividend will not be able to claim repayment of the tax credit from HMRC.

In the case of an individual so resident who is not liable to income tax at a rate greater than the basic rate, the tax credit will discharge his liability to income tax in respect of the gross dividend and there will be no further tax to pay and no right to claim any repayment of the tax credit from HMRC. In the case of an individual so resident who is liable to income tax at the higher rate on dividends (currently 32.5 per cent.) the tax credit will be set against his tax liability in respect of the gross dividend and, accordingly, he will have to pay additional tax at the rate of 22.5 per cent. of the gross dividend, to the extent that the gross dividend falls above the threshold for higher rate income tax.

Subject to certain exceptions a shareholder which is a company resident in the United Kingdom for tax purposes will not be liable to United Kingdom corporation tax on any dividend received from the Company.

Trustees of discretionary trusts and of trusts where dividend income is accumulated are liable to tax at the rate of 32.5 per cent. of the gross dividend receipt. The tax credit of 10 per cent. will be set against the trustee's tax liability in respect of the gross dividend and accordingly the trustees will have to pay additional tax at the rate of 22.5 per cent. of the gross dividend. This is a complex area and trustees of such trusts should consult their own tax adviser.

(b) ***Non-United Kingdom Residents***

Subject to certain exemptions for individuals who are Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands, nationals of states which are part of the European Economic Area and certain others, the right of a Shareholder who is not a resident in the UK (for tax purposes) to claim any part of the tax credit will depend upon the existence and terms of any double taxation treaty between the UK and the country in which that person is resident. The tax credit is one ninth of the cash dividend paid. Persons who are not resident in the UK should consult their own tax advisers concerning their liabilities (in the UK and any other country) on dividends received, whether they are entitled to claim any part of the tax credit and if so, the procedure for doing so, and whether any double taxation relief is due in any country in which they are subject to tax.

Any person who is in any doubt as to his or her tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult an appropriate professional adviser.

The Company assumes no responsibility for the withholding of any taxes or dividends at source.

10. EIS tax relief

(a) ***Introduction***

The following information provides an outline only of the EIS. It is strongly recommended that potential investors obtain independent advice from a professional adviser to take into account the effect of the legislation in the context of their particular personal circumstances.

The Company has applied for provisional approval from HMRC that the Ordinary Shares to be issued under the proposed Placing will be eligible and that its proposed activities would be regarded as a qualifying activity for these purposes. HM Revenue & Customs has confirmed that relief should be available after the issue of relevant certificates and upon a claim being made by a qualifying individual. This assurance has been provided without the sight of any drafts of this document.

Neither the Company nor its advisers give any warranties or undertakings that EIS relief will be available or that, if given, such relief will not be withdrawn.

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

The tax legislation in respect of the EIS income tax and EIS deferral relief is found in sections 289 – 312 Income and Corporation Taxes Act 1988 and schedule 5B Taxation of Capital Gains Act 1992. The following is a summary of the more common conditions and should not be construed as comprehensive.

(b) ***EIS Relief***

Income tax relief, CGT deferral relief, CGT exemption relief and loss relief may all be available to investors under the EIS legislation. EIS Relief can be claimed only by a “qualifying investor” (see below) who subscribes for new “eligible shares” (see below) issued by a “qualifying company” (see below).

(i) ***Income tax relief***

Individuals who qualify may deduct an amount that is equal to tax at the lower rate of income tax on the amounts subscribed for qualifying shares in qualifying companies from their total liability to income tax for the tax year in which the shares are issued. EIS Relief is obtained at a rate of up to 20 per cent. The maximum investment is £400,000 per tax year. Spouses are entitled to a maximum of £400,000 each. The minimum amount subscribed must be at least £500.

For income tax purposes (but not CGT deferral, see below), the individual does not need to be a UK resident. However, income tax relief is only available where an investor has a UK income tax liability. The amount of income tax relief cannot exceed an individual’s tax liability before other reliefs given by way of discharge of tax. Relief is normally given in the tax year in which the individual invests.

(ii) ***CGT exemption***

To the extent that EIS income tax relief is given and not withdrawn, any capital gain accruing to an individual on the first disposal of the shares issued three or more years after the date of issue (or, if later, three or more years after the anniversary of the date trading commences) is not chargeable to CGT. The exemption does not extend to any gain deferred by CGT deferral (see above).

(iii) ***Loss relief***

Where an investor incurs a loss on the first disposal of their shares, the loss calculated after deducting EIS income tax relief from the base cost usually may be set against either chargeable gains or taxable income at the election of the investor.

(c) ***“Qualifying Investor” for EIS Income Tax Relief purposes***

An individual must not be, nor have been within the previous two years prior to the date of issue of the shares, connected with the Company, or become connected with it within the next three years (or, if later, within the three years following the date of commencement of trading), if he is to retain the tax reliefs. The main rules relating to “connection” are that:

- (i) neither the individual nor his associates may be an employee, partner or paid director of the Company (subject to (iii) below) or of its subsidiaries. An unpaid director is not disqualified if he is reimbursed travelling or subsistence expenses which would otherwise be allowable for taxation;
- (ii) neither the individual nor his associates may control the Company or possess more than 30 per cent. of the issued ordinary share or loan capital or voting powers in the Company or rights carrying entitlements to 30 per cent. of the assets available for distribution to equity holders; and
- (iii) an individual may become a paid director of the Company provided at the time he subscribes for eligible shares he was not, and had not previously been, otherwise connected with the Company nor with the trade carried on by the Company by reference to (i) or (ii) above. Any remuneration paid to a director must be reasonable.

There is also various anti-avoidance legislation, in particular the value received rules. Under these, EIS income tax relief may be reduced or withdrawn where the investor receives any value from the Company. Relief to the investor may also be withdrawn where other shareholders of the Company are repaid capital or receive value from the Company.

(d) ***Qualifying Company***

For a period of three years following the issue of the shares (or, if later, three years following the date of commencement of the trade), the Company must only:

- (i) carry on a qualifying trade; and/or
- (ii) be the parent company of a group which exists wholly, or substantially wholly for the purposes of carrying on qualifying trades; and

(iii) not be disqualified by anti-avoidance rules.

At least 80 per cent. of the money raised by the issue of qualifying shares must be employed wholly for the purpose of a qualifying business activity within 12 months of the date of the issue of the shares or, if later, the commencement of trade and the balance within 24 months of the date of issue (or commencement of trade, if later).

To be qualifying, the shares of the company must not be quoted on a recognised Stock Exchange at the time the eligible shares are issued and no arrangements must exist at that time for the Company to become quoted.

(e) ***Eligible shares***

Eligible EIS shares are new ordinary shares which, throughout the period of 3 years beginning with the date on which they are issued or, if later, the date of commencement of the trade, carry no present or future preferential right to dividends or to the Company's assets on its winding up and carry no present or future right to be redeemed.

(f) ***Provisional approval***

The Company has received from HMRC provisional approval that the Company will be carrying on a qualifying trade and that the shares to be issued will be "eligible shares". Provisional approval, once given, is indicative but is not binding on HMRC. The position could also be affected by acts or omissions of the Company during the 3 year period from the date of issue of the shares (or, if later, the date of commencement of the trade).

(g) ***Claims***

Investors claim income tax relief by submitting a tax relief certificate (Form EIS 3) issued to them by the Company to the Inspector of Taxes dealing with their own tax affairs. The claims for relief must be made no later than 5 years after the 31 January following the end of the tax year in which the shares are issued.

(h) ***Carry back of Relief***

For shares subscribed on or after 6 April and before 6 October, up to one half of the investment (up to £50,000) may be effectively carried back to the previous tax year if the relevant claim is made.

(i) ***Withdrawal of EIS Relief***

If the conditions for EIS Relief relating to a company cease to be satisfied during the period of three years from the date of issue of the shares (or, if later, three years from the date of commencement of trade), the relief will be withdrawn. EIS Relief will also be wholly or partly withdrawn if, for example, the claimant receives significant value from the Company (other than dividends) or disposes of the shares within three years of the date of issue (or, if later, within three years of the date of commencement of the trade). EIS Relief will also be lost if an investor takes out a loan under special terms connected in any way with the shares.

(j) ***CGT deferral***

CGT deferral enables investors to defer capital gains by reinvesting in qualifying investments. Provided a capital gain realised on any asset is reinvested in new "eligible shares" of a "qualifying company" within 3 years of the disposal giving rise to the gain or not more than 1 year prior to a disposal giving rise to a gain, assessment to tax on the gain arising may be deferred until the qualifying investment is sold or (if within 3 years from subscription, or commencement of trade, if later) otherwise ceases to qualify. At this point, the deferred gain would come back into charge, without the benefit of any additional taper relief.

The legislation, conditions and anti-avoidance rules for deferral relief are broadly similar to those for EIS income tax relief outlined above, but there are some differences.

11. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group (i) within the period of two years immediately preceding the date of this document and which are, or may be, material or (ii) which contain any provision under which any member of the Group has an obligation or entitlement to the Group as at the date of this document:

- (a) A placing agreement dated 14 June 2006 and made between (1) the Company (2) the Directors (3) the other Founder Investors and (4) Rowan Dartington pursuant to which Rowan Dartington has agreed, subject to certain conditions, to act as agent for the Company and the Founder Investors and to use its reasonable endeavours to procure purchasers for the Sale Shares at the Placing Price and places to subscribe for the New Ordinary Shares at the Placing Price.

The Placing Agreement is conditional upon, *inter alia*, Admission occurring on or before 8.00 a.m. on 15 June 2006 (or such later date as the Company and Rowan Dartington may agree, being not later than 30 June 2006). The Placing Agreement contains warranties from the Company and the Directors in favour of Rowan Dartington in relation to, *inter alia*, the accuracy of the information in this document and other matters relating to the Group and its business. The Placing Agreement also contains certain limited warranties given by the other Founder Investors to Rowan Dartington. In addition, the Company has agreed to indemnify Rowan Dartington in respect of certain liabilities it may incur in respect of the Placing. Rowan Dartington has the right to terminate the Placing Agreement in certain circumstances prior to Admission, in particular, in the event of a material breach of the warranties.

Under the Placing Agreement and subject to it becoming unconditional and not being terminated in accordance with its terms, the Company has agreed to pay Rowan Dartington a corporate finance fee of £47,500 and a commission of up to five per cent. on the value at the Placing Price of the Placing Shares and the Sale Shares together with any applicable VAT.

The Company has agreed to pay all of Rowan Dartington's costs and expenses (including any applicable VAT) of the Placing.

The Founder Investors have agreed not to dispose of any interest in Ordinary Shares held by them or persons connected with them until the first anniversary of Admission. For the following 12 month period, those persons have agreed not to dispose of any interest in Ordinary Shares held by them unless, broadly, such disposals can be effected in accordance with Rowan Dartington's reasonable requirements so as to ensure an orderly market in the Ordinary Shares.

- (b) A nominated adviser and broker agreement dated 14 June 2006 and made between (1) the Company (2) the Directors and (3) Rowan Dartington pursuant to which the Company has appointed Rowan Dartington to act as nominated adviser and broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay Rowan Dartington a fee of £16,000 plus VAT per annum for its services as nominated adviser and broker under this agreement. The agreement contains certain undertakings, warranties and indemnities given by the Company and the Directors to Rowan Dartington. The agreement is terminable upon not less than three months' prior written notice by either the Company or Rowan Dartington.

12. Working capital

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

13. Litigation

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings which may have or have had during the 12 months preceding the date of this document, a significant effect on the financial position or profitability of the Company and/or the Group nor, so far as the Company is aware, are any such proceedings pending or threatened.

14. Consents

- 14.1 Rowan Dartington & Co. Limited of Colston Tower, Colston Street, Bristol BS1 4RD is authorised and regulated in the United Kingdom by the Financial Services Authority. Rowan Dartington has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which they appear.
- 14.2 Saffery Champness, Chartered Accountants and registered auditors, of Lion House, Red Lion Street, London WC1R 4GB, have given and have not withdrawn their written consent to the issue of this document with the inclusion of their name and their report in Part III of this document and the references to such report and their name, in the form and context in which they appear.

15. General

- 15.1 Save as described in the paragraph headed “Current trading and prospects” in Part I of this document, there has been no significant change in the financial or trading position of the Company since 31 December 2005, being the end of the period to which the latest audited consolidated accounts of the Company relate.
- 15.2 The net proceeds of the Placing are expected to be approximately £21,000 net of expenses of the Placing which are estimated at £229,000, excluding VAT, and are payable by the Company.
- 15.3 Save as disclosed in this document, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, within the 12 months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:
- (a) fees totalling £10,000 or more;
 - (b) securities where these have a value of £10,000 or more calculated by reference to the Placing Price; or
 - (c) any other benefit with a value of £10,000 or more at the date of Admission.
- 15.4 Information in this document which has been sourced from third parties has been accurately reproduced and, so far as the Company is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 15.5 Save as disclosed in this document, the Directors are unaware of any exceptional factors which have influenced the Company’s activities.
- 15.6 Save as disclosed in this document, the Directors are unaware of any environmental issues that may affect the Group’s utilisation of its tangible fixed assets.
- 15.7 Save as disclosed in this document, the Directors are unaware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company’s prospects for the current financial year.
- 15.8 Save as disclosed in this document, there are no investments in progress and there are no future investments on which the Directors have already made firm commitments which are significant to the Group.
- 15.9 Save as disclosed in this document, the Directors believe that the Company is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Company’s business or profitability.
- 15.10 The Company will be subject to the provisions of the City Code, including the rules regarding mandatory takeover offers set out in the City Code. Under Rule 9 of the City Code, when (i) a person acquires shares which, when taken together with shares already held by him or persons acting in concert with him (as defined in the City Code), carry 30 per cent. or more of the voting rights of a company subject to the City Code or (ii) any person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company subject to the City Code, and such person, or any person acting in concert with him, acquires additional shares which increases his percentage of the voting rights in the company, then, in either case, that person, together with the persons acting in concert with him, is normally required to make a general offer in cash, at the highest price paid by him or any person acting in concert with him for shares in the company within the preceding 12 months, for all of the remaining equity share capital of the company.
- 15.11 The Ordinary Shares will also be subject to the compulsory acquisition procedures set out in sections 428 to 430F (inclusive) of the Act. Under section 429 of the Act, where an offeror makes a takeover offer (within the meaning of Part XIII A of the Act) and receives valid acceptances in respect of, or acquires, more than 90 per cent. of the shares to which the offer relates, that offeror is entitled to compulsorily acquire the shares of any holder who has not accepted the offer on the terms of such offer.
- 15.12 Since 31 October 2002, there has been no takeover offer (within the meaning of Part XIII A of the Act) for any Ordinary Shares.
- 15.13 The current accounting reference period of the Company will end on 31 December 2006.

15.14 The financial information contained in Part III of this document does not constitute statutory accounts within the meaning of section 240 of the Act. The auditors for each of the periods ended 31 December 2003 and 31 December 2004 were Solomon Hare Audit LLP, Chartered Accountants and registered auditors, of Oakfield House, Oakfield Grove, Clifton, Bristol BS8 2BN. Solomon Hare Audit LLP resigned as auditors on 17 January 2006 and Saffery Champness, Chartered Accountants and registered auditors, of Beaufort House, 2 Beaufort Road, Clifton, Bristol BS8 2AE were appointed in their place and carried out the audit of the accounts for the year ended 31 December 2005. A copy of the audited statutory accounts of the Company for each of the periods ended 31 December 2003, 31 December 2004 and 31 December 2005 has been delivered to the Registrar of Companies in England and Wales. The auditors' reports under section 235 of the Act on those accounts were unqualified and did not contain any statement under section 237 of the Act.

16. Availability of this document

Copies of this document are available free of charge from the Company's registered office and at the offices of Osborne Clarke at 2 Temple Back East, Temple Quay, Bristol BS1 6EG and at One London Wall, London EC2Y 5EB, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) and will remain available for at least one month after Admission.

Dated 14 June 2006

