

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document and what action you should take you are recommended immediately to seek your own financial advice from an independent financial adviser who specialises in advising on the acquisition of shares and other securities and is authorised under the Financial Services and Markets Act 2000 (“FSMA”).

This document, which comprises an AIM admission document drawn up in accordance with the AIM Rules, has been issued in connection with the application for admission of the entire issued and to be issued ordinary share capital of the Company to trading on AIM. This document contains no offer to the public within the meaning of FSMA, the Act or otherwise. Accordingly, this document does not comprise a prospectus within the meaning of section 85 of the FSMA and has not been drawn up in accordance with the Prospectus Rules or approved by the Financial Services Authority.

Application has been made for the Ordinary Shares and the Placing Shares to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. 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. London Stock Exchange plc has not itself examined or approved the contents of this document. It is expected that the Ordinary Shares and Placing Shares will be admitted to trading on AIM on 15 December 2006.

**THE WHOLE TEXT OF THIS DOCUMENT SHOULD BE READ. YOUR ATTENTION IS DRAWN, IN PARTICULAR, TO THE SECTION HEADED “RISK AND OTHER FACTORS” SET OUT IN PART II OF THIS DOCUMENT. ALL STATEMENTS REGARDING THE GROUP’S BUSINESS, FINANCIAL POSITION AND PROSPECTS SHOULD BE VIEWED IN LIGHT OF SUCH RISK AND OTHER FACTORS.**

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# IMAGINATIK PLC

*(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 3936915)*

*ISIN: GB00B1G2HX83*

## **Placing of 27,793,345 New Ordinary Shares of 0.0625p each at 7.5p per share and Admission to the AIM Market**

**Nominated Adviser and Broker  
W.H. Ireland Limited**

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### **SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION**

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
500,000,000	£312,500	Ordinary Shares of 0.0625p each	116,601,226	£72,876

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W.H. Ireland Limited, which is authorised and regulated by the Financial Services Authority in the United Kingdom, is acting as the nominated adviser and broker for Imaginatik Plc in connection with the proposed Placing and Admission, and is not acting for any person other than Imaginatik Plc and will not be responsible to any person other than Imaginatik Plc for providing the protections afforded to its customers, or for providing advice to any other person in connection with the Placing and Admission.

The Directors of Imaginatik Plc, whose names appear on page 5 of this document, accept responsibility, individually and collectively, for the information contained in this document. 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. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised. The delivery of this document or any subscriptions made hereunder shall not, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date of this document or that the information contained in this document is correct as of any time subsequent to the date of this document.

The Placing Shares will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares and will rank in full for all dividends and other distributions declared, made or paid on the Ordinary Shares after the date of Admission.

Copies of this document will be made available to the public during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) free of charge from the offices of W.H. Ireland Limited at 24 Bennetts Hill, Birmingham B2 5QP and from the offices of Marriott Harrison at 12 Great James Street, London WC1N 3DR and shall remain available for one month after the date of Admission.

This document is not for distribution outside the United Kingdom and, in particular, it should not be distributed to persons with addresses in Canada, Australia, Japan, South Africa or the Republic of Ireland or to persons with addresses in the United States of America, its territories or possessions or to any citizen thereof or to any corporation, partnership or other entity created or organised under the laws thereof. Any such distribution could result in the violation of Canadian, Australian, Japanese, South African, Irish or relevant United States of America law.

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## DEFINITIONS

<b>“Act”</b>	the Companies Act 1985, as amended;
<b>“Admission”</b>	the admission of the Ordinary Shares and the Placing Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules;
<b>“Admission Document”</b>	this document dated 11 December 2006;
<b>“AIM”</b>	the AIM Market of London Stock Exchange;
<b>“AIM Rules”</b>	the rules applicable to AIM as published by London Stock Exchange from time to time;
<b>“Articles”</b>	the Company’s articles of association;
<b>“Board” or “Directors”</b>	the directors of the Company, whose names appear on page 5 of this document;
<b>“CIO”</b>	Chief Innovation Officer;
<b>“Combined Code”</b>	the Combined Code of Corporate Governance published in July 2003 and as amended in June 2006;
<b>“Company” or “Imaginatik”</b>	Imaginatik Plc;
<b>“CREST”</b>	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo Limited;
<b>“CREST Regulations” or “Uncertificated Securities Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001/3755) including any modification thereof or any regulations in substitution therefor made under section 207 of the Companies Act 1989 and for the time being in force;
<b>“Employee Award Shares”</b>	the Ordinary Shares to be issued under the Employee Share Awards;
<b>“Employee Share Awards”</b>	the issue to certain employees, conditional on Admission of 4,719,750 Ordinary Shares as set out in paragraph 4.10 of Part IV of this document;
<b>“Enlarged Share Capital”</b>	the Ordinary Shares in issue at Admission;
<b>“Existing Ordinary Shares”</b>	the Ordinary Shares in issue at the date of this document;
<b>“FSMA”</b>	Financial Services and Markets Act 2000;
<b>“Group”</b>	Imaginatik, Imaginatik (Goswell) Limited and Imaginatik, Inc.;
<b>“Loan Conversion Arrangements”</b>	the conditional arrangements to convert into Ordinary Shares certain sums due from the Company to certain persons, as more particularly set out in paragraph 4.9 of Part IV of this document;
<b>“Loan Conversion Shares”</b>	the 3,154,797 Ordinary Shares to be issued under the Loan Conversion Arrangements;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Official List”</b>	the Official List of the UKLA;
<b>“Ordinary Shares”</b>	ordinary shares of 0.0625p each in the capital of the Company;
<b>“Placing”</b>	the conditional placing of the Placing Shares on the terms set out in the Placing Agreement;

<b>“Placing Agreement”</b>	the conditional agreement between (1) the Company, (2) the Directors and (3) W.H. Ireland in relation to the Placing and which is summarised in paragraph 8.1.2 of Part IV of this document;
<b>“Placing Price”</b>	7.5p per Placing Share;
<b>“Placing Shares”</b>	the 27,793,345 new Ordinary Shares which have been conditionally placed at the Placing Price on the terms set out in the Placing Agreement;
<b>“Share Dealing Code”</b>	the code on dealings in the Company’s securities adopted by the Company;
<b>“Shareholders” or “Members”</b>	holders of issued Ordinary Shares;
<b>“Share Option Scheme”</b>	the Imaginatik Plc Enterprise Management Incentive Scheme, details of which are summarised in paragraph 7 of Part IV of this document;
<b>“Stock Option Plan”</b>	the Imaginatik Plc 2006 Stock Option Plan;
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“UKLA”</b>	the United Kingdom Listing Authority of the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
<b>“United States” or “US”</b>	the United States of America, its territories and possessions, any state of the United States of America and the district of Columbia and all other areas subject to its jurisdiction or any political subdivision thereof; and
<b>“W.H. Ireland”</b>	W.H. Ireland Limited.

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Howard Cleveley Marshall ( <i>Non-executive Chairman</i> ) Mark Clifford Turrell ( <i>Chief Executive Officer</i> ) Shawn Karl Taylor ( <i>Chief Financial Officer</i> ) Andrew Karl Wainwright ( <i>Chief Technology Officer</i> ) Paul Gilmer Morland ( <i>Non-executive Director</i> ) Phillip George Nutburn ( <i>Non-executive Director</i> )
<b>all of Registered Office</b>	22 Melton Street, London NW1 2BW
<b>Telephone number</b>	+44 (0)207 917 2975
<b>Company Secretary</b>	Shawn Karl Taylor
<b>Nominated Adviser and Broker</b>	<b>W.H. Ireland Limited</b> 24 Bennetts Hill Birmingham B2 5QP
<b>Auditors and Reporting Accountants</b>	<b>Tenon</b> Charnwood House Gregory Boulevard Nottingham NG7 6NX
<b>Solicitors to the Company</b>	<b>Marriott Harrison</b> 12 Great James Street London WC1N 3DR
<b>Solicitors to the Placing</b>	<b>Shoosmiths</b> 7th Floor 125 Colmore Row Birmingham B3 3SH
<b>US Tax Advisers to the Company</b>	<b>Morison Cogen LLP</b> 150 Monument Road, Suite 500 Bala Cynwyd PA 19004 United States of America
<b>US Legal Advisers to the Company</b>	<b>Dorsey &amp; Whitney LLP</b> 250 Park Avenue New York NY 10177 United States of America
<b>Registrars</b>	<b>Neville Registrars Limited</b> Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
<b>Public Relations Advisers</b>	<b>ICIS Ltd</b> 3rd Floor Aldermary House 10-15 Queen Street London EC4N 1TX

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission Document publication date	11 December 2006
Admission effective and dealings in Ordinary Shares commence on AIM	15 December 2006
Date for CREST accounts to be credited (in respect of the Placing Shares and where applicable)	15 December 2006
Date for posting of the share certificates for the Placing Shares (where applicable)	22 December 2006

## PLACING AND ADMISSION STATISTICS

Number of Existing Ordinary Shares in issue immediately prior to the Placing	80,000,000
Number of Employee Award Shares being issued pursuant to the Employee Share Awards	4,719,750
Placing Price	7.5p
Number of Placing Shares being issued under the Placing	27,793,345
Number of Loan Conversion Shares being issued pursuant to the Loan Conversion Arrangements	3,154,797
Number of Ordinary Shares being subscribed by certain non-executive Directors' under their remuneration arrangements	933,333
Number of Ordinary Shares in issue immediately following completion of the Placing and Admission	116,601,226
Gross proceeds of the Placing	£2.1 million
Estimated net proceeds of the Placing receivable by the Company	£1.5 million
Market capitalisation of the Company following completion of the Placing and Admission at the Placing Price	£8.7 million
Number of Ordinary Shares in issue assuming exercise of all options to subscribe for Ordinary Shares	128,292,238

	% of Enlarged Share Capital on Admission	% of Enlarged Share Capital assuming exercise of all options
Percentage of the Enlarged Share Capital represented by:		
Existing Ordinary Shares prior to Admission	68.61	62.36
Employee Award Shares	4.05	3.68
Placing Shares	23.84	21.66
Loan Conversion Shares	2.71	2.46
Non-executive Directors' Remuneration Shares	0.80	0.73

## PART I

### INFORMATION ON THE GROUP

#### INTRODUCTION AND HISTORY

The Company is a software and services company specialising in business innovation and providing information technology based systems for innovation and idea management. It has offices in the US, UK and Germany, and sells to predominantly medium and large-scale corporations and organisations. Imaginatik Limited was founded in 2000 by Mark Turrell and his wife, Dr Yvonne Lindow.

An increasing number of blue chip organisations now see innovation management as an important strategic function and therefore the market demand for Imaginatik's products has grown significantly over recent years. The Company has now established a strong client base in the US, as well as a number of clients in Europe, ranging across a number of industry sectors, and is seeing significant growth in its business.

Imaginatik has first mover advantage, a strong client base of largely blue chip clients and an award winning well developed product line.

#### *The Innovation Challenge*

A recent study undertaken by IBM noted that one in five business leaders had "put their primary organisational focus on driving innovation into their core business model" and a survey of over 300 corporations with annual turnover of greater than £100 million by PricewaterhouseCoopers in March 2005, found that the top 20 per cent. of companies had product portfolios in which 75 per cent. to 100 per cent. of turnover came from products developed in the past five years.

Innovation has become a topic of increasing interest particularly for corporate America where the term "CIO" is increasingly used to refer to the Chief Innovation Officer rather than the Chief Information Officer. This interest is reflected in the growth of CIOs in corporate America, and Heidrick & Struggles Inc., a US executive search agency, is reported as having seen a fourfold increase in CIO positions in the last three years, with most of that growth coming in the last 18 months.

The Directors believe that this trend will continue as companies seek to generate continued growth in the development of their business in the face of low cost competition from countries such as India and China.

The Company considers that innovation is not just about development of new products but embraces revenue enhancement, cost reduction and improvement to product, processes and services.

The Directors believe that to a large corporation, innovative success will depend, amongst other things, on developing the necessary processes to:

- seek and gather ideas;
- allow those ideas to be shared and made easily available to others;
- actively engage a diversity of view points, talent and expertise;
- allow collaborative development of ideas; and
- incorporate reward and recognition to all participants.

#### *Imaginatik's Process*

Imaginatik and its founders have developed a software-based process to enable larger corporations to facilitate innovations across their operations. This process involves organisational structuring supported by Imaginatik's proprietary software, and ongoing support in terms both of project consulting and benchmarking in IT related systems.

The Company's core product is "Idea Central", a software package that helps businesses to innovate systematically across the organisation. The product is designed to collect ideas from a range of participants including employees, business partners and customers and contains the core functionality of the idea management process, such as idea collection, idea development, idea evaluation, idea browsing and search, and collaboration and workflow capabilities.

The key objectives of Imaginatik's approach are to:

- identify and empower those individuals who will be responsible for driving forward the innovation process. This may include helping clients to find a CIO and advising on the organisational structure required to support such an individual;
- advise on the nature of the innovation challenges to be addressed and to assist in the selection of the participating employee group;
- implement software to enable those challenges to be distributed, developed in collaboration with the employee group, evaluated and reviewed;
- assist clients with the benchmarking of the innovation challenges that they have set and the employee group response, against other businesses;
- assist clients in modelling and developing their innovation challenges in the light of the results of benchmarking; and
- assist clients with the development of an appropriate reward scheme to motivate and incentivise participants in the plan.

The software, which has been developed over an eight year period, is a key element of its process. It has been designed to be easily implemented by clients across a range of industries and to provide the metrics to allow clients to manage and benchmark the innovation process to provide appropriate reward and motivation packages.

### *Growth*

Imaginatik's revenues have grown from £0.58 million (\$1.1 million) in the year ended 31 March 2004 to £1.4 million (\$2.6 million) in the year ended 31 March 2006. In the six months to 30 September 2006 sales have grown to £1.3 million, a 200 per cent. increase on the equivalent period in the previous year. This revenue growth has been achieved without any significant marketing expenditure on the part of the Company.

### *Placing*

To continue its growth and take advantage of the expanding market for its products, the Company needs additional working capital to fund the addition of further sales executives, marketing resources and implementation staff in both the UK and the US, to repay undrawn salaries and expenses of certain Directors and senior managers amounting in aggregate to approximately £230,000 and to repay third party borrowings amounting to £100,000. Accordingly, the Company has conditionally agreed to issue 27,793,345 new Ordinary Shares pursuant to the Placing at the Placing Price to raise £1.5 million (net of expenses). The Placing Shares have been conditionally placed with institutions and other investors. The Placing has not been underwritten.

## **THE BUSINESS, PRODUCTS AND SERVICES**

Imaginatik focuses on the provision of innovation management processes to large-scale organisations. It offers businesses a comprehensive solution for their innovation and idea management requirements, consisting of leading software products and related consulting services. Imaginatik's approach delivers tools that focus on using the employees, customers, suppliers and other stakeholders in the enterprise to address relevant business issues, generate new sources of revenue and deliver cost reductions.

As a specialist in the areas of innovation and idea management, Imaginatik is able to provide assistance in the business aspects of planning and deploying idea management programs. The Company's consultants enable innovation teams and business leaders to seek to maximise the success of their projects through fuller consideration of the critical issues involved. These services are based on Imaginatik's proven methodology and considerable experience gained across many different industries. Typically such consulting services help senior management to define the processes and the approach prior to the launch of an idea management program, provide advice to resolve issues during the campaigns, and assist in selecting the most suitable options in the Idea Central software.

Idea management enables the systematic capture, sharing and exploitation of potentially high value business ideas and intellectual property across an organisation to achieve innovation as well as continuous improvement. This discipline is quickly gaining support in today's business environment. Imaginatik has a strong reputation in this area, experienced people, with leading technology and best practice. According to AMR Research, a firm of industry analysts, Imaginatik is one of the "five product lifecycle vendors that deserve attention" and its unique approach "may be just what the doctor ordered".



The Company's core software product is Idea Central; the software won the Basex Award for Excellence, a prestigious industry award, for being the leading Idea and Innovation package in the marketplace. In addition, Idea Central was identified by KMWorld, an industry publication, as being "a trend setting product" in September 2005 and again in September 2006.

The software may be applied to many business operations, across a variety of industries and in many cultures and countries. The market for Imaginatik's products is therefore wide, with no requirement to restrict the sales and marketing efforts to specific industries or functions. The software is multi-lingual, configurable, can be deployed quickly and is designed to keep the need for custom modifications to a minimum.

The software has been designed so that end users require no training to participate in an Idea Central event, an approach that has been validated by numerous client implementations. Specialised training is available to help managers, administrators and members of the review team to increase the benefits that they may obtain from Idea Central. Training is delivered through a mixture of telephone, online and workshop settings.

Imaginatik provides hosting facilities for the software to assist clients who do not wish to install the software on their own systems. The infrastructure is provided and managed by a third party in a separate facility. Approximately two thirds of Imaginatik's software implementations are delivered as a hosted service. Generally, the 'Software As A Service' (SaaS) model is expected to grow rapidly. According to Gartner Group, a leading technical research house, 33 per cent. of all corporate applications will be hosted in some form outside of a company's internal IT systems by 2009. Many of Imaginatik's clients favour the hosted approach because of the security features offered by the service provider.

In addition to technical support, Imaginatik offers clients ongoing support with their development and implementation of the innovation process and it runs a series of user groups allowing its clients to exchange ideas for the development of the innovation process and to share best practice.

Clients have reported significant success as a result of their relationship with Imaginatik. For instance, Georgia Pacific deployed the Imaginatik software in 2003 and various ideas garnered from its employees successfully reduced the costs of manufacture of one component part alone by \$1.2 million per annum. In addition, Grace Chemical's manufacturing division has harvested over 2,500 new ideas for improvements, yielding 76 new products and 67 distinct improvements. It estimates that their new ideas have increased revenues by as much as \$3 million per annum.

## **INTELLECTUAL PROPERTY**

Imaginatik's approach is based on know-how, experience and other intellectual property that has been developed by Imaginatik and its founders over a number of years. This includes processes, process designs, methodologies and software functionality. As there are limitations to the extent to which these can be protected under intellectual property law, a strategic decision has been taken not to seek patents in these areas. The Company operates employee and client codes on non-disclosure and non-misuse of this intellectual property.

## **THE MARKET AND COMPETITION**

The global innovation market is growing quickly. According to a February 2005 industry report by IDC Corporation, the market is forecast to grow at a compound annual growth rate of 35 per cent. over the next few years. A 2005 Bain & Company survey found that 86 per cent. of executives said that innovation is more important than cost reduction for long-term success and a survey by PricewaterhouseCoopers in March 2005 found that two-thirds of Chief Executive Officers from America's fastest growing private companies reported that innovation is an organisation-wide priority.

Innovation impacts many types of organisations – in both the private and the public sector. The European Union has for a number of years funded innovation initiatives and most EU governments now have innovation mandates. The European Commission announced on 12 October 2005 an action plan in a bid to boost innovation in the 25-nation bloc. Its focus is on providing the best conditions for private sector innovation and research. "Innovation and research are crucial if the EU is to return to sustainable growth. Every cent which goes into innovation and research is a cent invested in jobs, growth and hence our future" (Günter Verheugen, VP responsible for enterprise and industry policy).

In June 2005, Deloitte & Touche LLP reported that the top 10 innovators in the financial services industry enjoy “premiums” ranging from 35 per cent. to 55 per cent., meaning that one-third to half of their total market value is specifically tied to innovation.

PricewaterhouseCoopers’ research in March 2005 also shows that in the preceding five years, innovative firms within America’s fastest growing private companies have increased revenues by an average of 346 per cent. versus 138 per cent. of others surveyed.

In terms of competition, a recent review of prospects lost by the Company indicated that approximately 65 per cent. did not want to proceed with any software process development, 20 per cent. decided to proceed with in-house systems and 15 per cent. of lost prospects went to third party vendors.

Imaginatik's third party competition at the moment comprises some larger software vendors such as IBM Corporation, Centric Software, Inc., CA Inc. (formerly Niku Corporation) and Sopheon Corporation. Alongside these are a few smaller operators, such as brightidea.com Inc. and MindMatters Technologies Inc. In addition there are certain ERP suppliers, particularly SAP AG, who have assembled add-ons to their products that offer some similar functionality.

The Directors believe that Imaginatik’s combination of innovation software with professional services, depth of research activities and user groups, provides it with an important differentiator in the market place.

## **REVENUE MODEL**

Imaginatik’s sources of revenue comprise the following:

**Licence Fees** – These fees are either of an annual or a perpetual nature; the majority of Imaginatik’s new business is based on an annual licence. The annual licence fees are paid each year by clients to license the software modules that they have chosen to use as part of their innovation management programmes. Other clients choose to pay a perpetual licence fee, which is a one-off payment for perpetual usage rights to the software. Typically the perpetual licence fee will be far higher than the annual fee. These licence fees are usually paid for in advance and cover a specified number of users. If the deployment exceeds the agreed number, the client is required to pay for the additional user licences.

**Maintenance Fees** – Clients are charged an annual maintenance fee, which covers the right to receive software upgrades as well as technical support. The annual software licence includes the provision of maintenance and support services. For accounting purposes these are usually calculated at 18 per cent. of the licence fee.

**Hosting Fees** – These fees arise in two ways for those clients who do not install the Company’s software on their internal servers. Initial hosting setup fees are charged to each new client as the Company establishes their hosted environment. Ongoing hosting fees include the maintenance of that environment, the use of the server, technical support and, optionally, a monthly security scan. These fees are charged on an annual basis and are paid up front.

**Consulting Services** – The services Imaginatik offers are focused on innovation processes and on implementing the innovation management software environment, ranging from advice on innovation strategy and program design and the provision of training to the innovation team or reviewers, to overall project management and IT installation support. Services are delivered on a package basis, using repeatable deliverables to accelerate deployment and reduce internal costs.

Most clients buy the licence for an Idea Central environment, pay for maintenance and hosting on an ongoing annual basis and also order a package of innovation consulting services. The annual licence has become a popular choice, ensuring a significant amount of contracted recurring revenue for future years. Imaginatik's goal is to generate at least 65 per cent. of its revenue from licence, hosting and maintenance fees with the remainder arising from consulting services.

In the initial phase of its development, Imaginatik has sought to price its product to gain client acceptance and thereafter to recover costs. However, in the past year it has been moving towards a value based model which seeks to price its product on a basis which reflects the value added for its clients.

## **CLIENTS AND PIPELINE**

The Company’s client base comprises a number of medium to large businesses in the USA and Europe. They range across various industry sectors but with a bias towards pharmaceuticals, chemicals, manufacturing, healthcare, high technology, consumer goods, banking and insurance. To date, business has mainly been won by responding to individual client enquiries either at conferences or through the internet. Imaginatik has not been in

the position to spend any meaningful time or money on actively marketing its products and services except for the dedicated salesperson hired in February 2006. Despite this lack of resource the client list has grown swiftly, as shown by the following table which shows sales for each of the seven half year periods ended 30 September 2006 together with the annualised recurring sales committed at the end of each period:

	<b>6 months to 30 September 2003 £'000</b>	<b>6 months to 31 March 2004 £'000</b>	<b>6 month to 30 September 2004 £'000</b>	<b>6 months to 31 March 2005 £'000</b>	<b>6 months to 30 September 2005 £'000</b>	<b>6 months to 31 March 2006 £'000</b>	<b>6 months to 30 September 2006 £'000</b>
Revenues	262	317	305	347	639	772	1,279
Recurring revenues	72	134	171	278	311	702	1,050

The Company currently has 35 ongoing clients, with 8 having been acquired during 2006. Existing clients include Chevron Texaco Global Lubricants, Kraft Foods Inc., Bayer MaterialScience AG, Yahoo! Inc., Hallmark Cards Inc., Pfizer, Inc., Hewlett-Packard Development Company L.P., W.R. Grace & Co., Weyerhaeuser Corporation, GlaxoSmithKline Inc., Colgate-Palmolive Company, The Dow Chemical Company, The Hartford Financial Services Group, Inc. CapitalOne Financial Corporation, Goodyear SA, Georgia-Pacific Corporation, Cadbury Adams USA LLC, St. Judes Medical, Inc., Charles Schwab & Co. Inc. and Cargill, Inc. All of these are substantial businesses which have developed dedicated innovation management programmes and are committed to the innovation process as a way of delivering future revenue growth and cost reductions.

The Board estimates that from its existing 35 clients, Imaginatik has established contracts with over \$1.9 million in recurring revenue on an annual basis. This is without factoring in the likely additional licences and services that may be sold to these clients. The recurring annual revenues are generated from each client through long term contracts for annual licence fees, maintenance and hosting fees.

Approximately 80 per cent. of the Company's clients have not acquired Imaginatik software licences in respect of all their business. The Directors therefore believe that there is considerable scope for making further sales to the existing client base.

In addition to this ongoing client base, Imaginatik has also been engaged for project-based work by over 100 clients. These projects consist of consulting work that is often combined with the time-based rental of an Idea Central software environment. The wide range of these engagements has allowed Imaginatik to gather extensive expertise in innovation management processes, while generating different types of income streams and building up a comprehensive offering. These short-term projects often represent the first phase of a relationship that is later converted into an ongoing contract. The Company has a number of pilot studies underway with GE Aviation, Baker Oil Tools Inc., SingTel, Lexmark International Limited, Computer Sciences Corporation, The Coca Cola Company, Colgate Palmolive Company, Nokia and a number of others.

During November 2006 the Company has agreed two assignments with IBM, one in respect of a project for KPMG UK and another in respect of a project for a UK local government authority. The Board are encouraged by this and believe that there is considerable scope for further joint projects through IBM.

Imaginatik has identified certain objective criteria which, based on past experience, its Directors believe are strong indicators of likely success and these criteria have been adopted as a basis of evaluating Imaginatik's pipeline. At 30 August 2006 the Company's business pipeline was six times larger than at 30 November 2005, the earliest date from which equivalent information is available.

## **STRATEGY**

Imaginatik's strategy is to expand the market for innovation management in medium to large companies in its primary geographic markets of the US and Europe. Imaginatik intends to consolidate its industry lead in this emerging market and to leverage the Company's core advantages. The Directors believe that these are as follows:

- a market leader in a fragmented market;
- existing blue chip client base;
- well established and award-winning technology platform;
- recognised industry expertise; and
- highly motivated, capable team.

Imaginatik intends to continue to develop both its proprietary technology and methods of exploiting the underlying technology, combined with broad industry and functional knowledge of innovation, to provide quick-to-implement, high value solutions.

Imaginatik aims to build strong client relationships that have the potential to provide long-term regular repeat business. Each client has the potential to provide a source of recurring licence fees, hosting fees, support and maintenance fees and services revenue.

In order to develop the business further and continue its growth, the Board considers that Imaginatik needs to invest in the following areas:

### ***Sales and Business Development***

Until very recently the Company was inhibited in the way in which it was able to exploit opportunities, as there were too few staff to manage the existing leads and develop new leads. That imbalance was addressed with the addition of four US based sales executives, appointed in February and June 2005, and March and July 2006. This number will need to be increased if the Company is to take full advantage of the opportunities in existing and developing markets.

Until February 2006, Imaginatik was selling principally to clients who had shown an existing demand for the software. Since that time, the Group has been able to employ a dedicated person charged with the task of pro-actively seeking new clients, stimulating demand and growing the prospective client base. This area needs to be further developed and this can only be achieved by combining an effective marketing strategy with further sales and business development executives who are focused on the key growth territories.

The sales team will continue to focus on medium to large-scale clients rather than smaller clients. The Company intends to target its selling effort further up the corporate hierarchy. The higher up an organisation the sales team reach, the larger the level of innovation budget they are potentially accessing. Approaching a potential client on a higher level provides a better opportunity for the Company to secure a larger sale and to close any sale within a shorter timeframe. Based on its existing experience, Imaginatik is targeting certain industry verticals including chemicals, consumer products, financial services, manufacturing. This allows it to support more intensive, solution-oriented sales in industries where the Company already has experience and an existing, referenceable client base. Securing a sale to a leading player in a particular industry can create significant selling opportunities with the other key players within the same industry.

### ***Marketing***

Marketing is a significant area for future development. To date, little marketing expenditure has been incurred by the Group. Over the last four years, the annual marketing expenditure of the Company has been approximately \$100,000.

Despite the successful implementation of the current strategy, Imaginatik has been hindered by a lack of resources, both financial and human. To take full advantage of the opportunities for growth, Imaginatik intends to develop vertical markets in those sectors where it already has a strong client presence. As the market for innovation develops, Imaginatik will require substantially more investment in marketing infrastructure in order to exploit these future opportunities.

### ***Internet Marketing***

Imaginatik intends to expand its internet marketing capability and is planning to advertise in other geographic regions such as Australasia, South Africa and Latin America. The Imaginatik website has been recently redesigned to not only take advantage of recent changes in search engine parameters and other online marketing, but also to cater to the changing requirements of Imaginatik's potential new clients.

### ***Conferences***

The number of innovation conferences taking place continues to increase. Select sponsorship and attendance of these conferences by Company representatives will also help to drive significant leads. Imaginatik is one of the sponsors of the FT Innovate 2006 Conference which is being held in December 2006 and organised for the first time by the Financial Times.

### ***Imaginatik Research***

Imaginatik's published research work ("Imaginatik Research") has been a significant contributor to the Company's success so far. Leads to Imaginatik Research are a significant contributor to sales through requests for initial research information. There are now opportunities to further exploit the existing work as well as the Imaginatik Research brand, to provide further support for both the Imaginatik website and for the development of the market as a whole. Separate web presences, translation of existing documents, creation of new research and exploitation of the 'Corporate Innovation' newsletter to further penetrate the target market with Imaginatik's messages, are a selection of the potential opportunities.

### ***Industry Analysts and Public Relations***

There is potential to expand Imaginatik's reach and to exploit the work that has already been completed in this area, either on a continuing outsourced basis with specialised vendors or by bringing some of it in-house.

The Directors intend to expand Imaginatik's marketing presence and activities in the US and Europe in order to capture the growing market in these areas.

## **OPERATIONS**

### ***Offices***

The Company's main offices are in the UK and US. The UK office is in Colden Common, near Winchester. This location enables the Company to access software engineering talent, and the office is situated in a convenient location for travelling in the UK and to the rest of Europe. As the European marketplace develops, the UK office will be expanded beyond Mark Turrell, Shawn Taylor and the development staff that are currently based there.

Currently the US sales office is based in Boston and given that North American business accounts for over 80 per cent. of current revenues, the Directors believe it is essential to maintain and grow the presence in the US. Imaginatik therefore plans to open further US offices including Atlanta and Cincinnati and in addition has the ability to expand its Boston office.

The Company has branch operations in Germany and Spain and further development of these, and of the other European markets, will be considered as the Company grows.

### ***Development***

Software development is performed in-house with a dedicated development team based in the UK. The development team follows industry best practice for developing web standards based applications. Imaginatik occasionally contracts with outsourced developers for specialised development projects. It is intended that future development work will be managed in-house.

### ***Sales***

The sales activities are managed by the VP of Sales, Cameron Snider, from the US office. The team consists currently of four full-time sales executives and a sales support executive, all of whom have been appointed in the last 18 months. Prior to this, all sales activity was undertaken by Mark Turrell. The arrival of dedicated personnel in 2005 and 2006 underpins the rise in revenues in the last two years and demonstrates the Company's confidence in the growth prospects for the market.

### ***Marketing***

This operation is currently run from the Boston office by Boris Pluskowski, Chief Marketing Officer, who joined the Company in November 2001. As is common within a small business operation, the budget for marketing activity has been limited. The Company has a number of marketing channels where it has been focusing its activities including internet marketing, the partnering program and research.

## **EMPLOYEES**

The Company currently has 29 employees including the executive Directors. The following table sets out the number of persons employed by the Company (excluding the executive Directors) and their main category of activity, as at 30 September 2006. 13 employees are based in the United Kingdom, 1 in Germany and 15 in the United States:



Function	Number of Employees			
	Year ended 31 March 2004	Year ended 31 March 2005	Year ended 31 March 2006	Period to 30 September 2006
CEO	1	1	1	1
Sales	–	1	5	6
Marketing	1	1	1	2
Business Development	–	–	1	1
Software Development	3	5	5	6
Implementation	1	1	1	3
Technical Operations	1	2	3	5
Finance and Administration		–	2	2
	7	11	19	26
	7	11	19	26

In order to deliver the level of growth that the Company anticipates and to successfully manage the increased client base, Imaginatik is likely to require significant headcount additions to be phased into the business over the next few years. The new staff additions are likely to be required across the whole business both in the UK and the US. The Company may find it beneficial to open small satellite offices, particularly in Europe and Australia, to ensure a more comprehensive exploitation of the available market and service provision to clients.

Most of the routine finance function is planned to be outsourced. The financial analysis work and the statutory reporting will all be performed out of the UK office.

## DIRECTORS AND SENIOR MANAGEMENT

### Directors

The Board comprises three executive directors and three non-executive directors, whose details are set out below:

#### **Howard Cleveley Marshall** (*Non-executive Chairman, aged 63, British*)

Howard is a graduate mathematician and holds a Masters Degree in Business Administration from London Business School.

He was the Chairman and Chief Executive of Bullough plc from 2001 to 2003, and between 1989 and 2000, Chief Executive of Ash & Lacy plc. Howard has served at main board level within UK public companies for 17 years.

Howard is a non-executive Director of Hill & Smith Holdings plc, an infrastructure engineering company involved in transport and construction industries. He is also a governor of the University of Central England, Heart of England Tourist Board and Chairman of Orchestra of the Swan.

#### **Mark Clifford Turrell** (*Chief Executive Officer, aged 36, Canadian*)

Mark is a co-founder of Imaginatik and the main shareholder. He has advised over 300 companies on innovation management and related topics of knowledge management and collaborative technologies. In 2001, he founded the Imaginatik Research organisation which is dedicated to fundamental research in corporate innovation.

Mark is a frequent speaker on innovation and idea management and is widely recognised as a leading authority in the field of idea management, having written numerous magazine articles and papers. He has been an expert guest on CNN, CNBC and CNET Radio. Mark is also the author of “Deployment and Beyond”, an executive guide to implementing innovation applications.

Mark has a BSc in Business from Cass School of Business. He has lectured at Penn State University and he also lectures occasionally at several business schools including Cass School of Business and Harvard Business School.

**Shawn Karl Taylor FCA (Chief Financial Officer, aged 43, British)**

Shawn joined Imaginatik in September 2005 and maintains responsibility for financial systems and processes. Shawn also has responsibility for the routine financial controls, management accounting, forecasting and budgeting procedures, treasury management, foreign exchange control and corporate governance compliance.

He has eight years' experience as a public company CFO and has led companies through growth phases having previously been Chief Financial Officer of HIT Entertainment Plc from 1998 to 2001 and Content Film Plc from 2001 to 2004.

**Andrew Karl Wainwright (Chief Technology Officer, aged 39, British)**

Andrew manages hosting operations, client support, pre-sales technical support and internal I.T. He is responsible for creating Imaginatik's hosted services. His background includes 12 years with IBM from 1988 to 2000, where he was European Manager for Hosted Services. Andrew has written three technical books on managing hosted systems, and has been an IT management consultant. Andrew has an MA in Mathematics from the University of Cambridge. Andrew joined Imaginatik in November 2001.

**Paul Gilmer Morland ACA (Non-executive Director, aged 46, British)**

Paul is the Software and Computer Services analyst at Arbutnot Securities. Having qualified as a Chartered Accountant with PricewaterhouseCoopers in 1985, Paul spent three years at Schroder Investment Management. He then held various accounting roles in industry including divisional CFO at Serco Plc.

In 1995 he joined NatWest Securities and was voted the number one analyst in the UK technology sector in the 1998 Extel survey. During this period he was involved in a number of flotations including Autonomy and Computacenter. He was consistently ranked in the top three analysts in his sector until he left Deutsche Bank (which acquired NatWest Securities in 1999) in 2000 to become the CFO of a privately owned IT services company. He returned to an analyst role in the Software and IT Services sector in 2002 and his team at Societe Generale was voted number two in the 2005 pan-European Extel survey.

**Phillip George Nutburn (Non-executive Director, aged 57, British)**

Phil has worked for a number of technology businesses including LTX Corporation, Schlumberger and GenRad where he worked internationally and in the UK. Phil was Vice President & General Manager of European Operations at Aspect Development Inc. (acquired by I2 Technologies in 1996), between 1992 and 2000. Since then he has worked as a consultant, advising boards of early stage US companies seeking to do business in Europe.

Phil is a Chartered Engineer who holds an Electrical and Electronics Engineering degree from the University of Northumberland and is a graduate of the IMD (Switzerland) Program of Executive Development.

Particulars of all service contracts between the Company and the Directors are set out in paragraph 5.9 of Part IV of this document.

**Senior Management**

**Dr Yvonne Ursula Lindow (VP Operations, aged 38, German)**

Yvonne, who is based in Berlin, heads the software development team and is responsible for the development of all of Imaginatik's software and related client projects. She is one of the founders of Imaginatik.

She holds a doctorate in Financial Reporting from the University of St. Gallen, Switzerland and has contributed to several academic papers on knowledge management and collaborative applications.

Yvonne is married to Mark Turrell.

**George Cameron Snider (VP Sales, aged 37, Canadian)**

Cameron joined the Company in 2005 to lead and help form the new sales team. Prior to this he held a senior position in the Strategy and Business Development division of Belgacom, based in Brussels. He has over 12 years' experience in sales and operational management and has run an international consulting business. Cameron holds a degree in International Business from Wittenberg University in Ohio.

**Boris Michal Pluskowski (Chief Marketing Officer, aged 34, British)**

Boris has responsibility for all of Imaginatik's marketing activities. He has an MBA from the Cass Business School in London specialising in IT and Management. Prior to joining Imaginatik, Boris was a consultant at PricewaterhouseCoopers' Strategic Consulting practice. He has over nine years of experience in knowledge and innovation, supporting companies such as Nokia, Seagram, The Inter-American Development Bank, Cadbury Adams, Capital One, Mutual of New York, NCR and IBM. In addition to various speaking engagements and press interviews, Boris is the author of numerous reports on idea, innovation and knowledge management, with a particular focus on the human elements of working within such systems.

**Marta Jakab (Chief Development Officer, aged 41, Italian)**

Marta joined Imaginatik in 2002, and is currently responsible for driving the development of the Company's software products. Marta has over fifteen years' experience in software design, project management and business consulting. Prior to joining Imaginatik, Marta worked for Oracle Corporation, where she was involved in the development of the e-Business Applications Suite. Marta has an MBA from Cass Business School and a BSc in Mathematics and Computer Science from the Hungarian University of Natural Sciences.

**SUMMARY FINANCIAL INFORMATION**

The consolidated audited results of Imaginatik for the three years ended 31 March 2006 and five months ended 31 August 2006 are set out in Part III of this document and are summarised below:

	<b>Year ended 31 March 2004 £'000</b>	<b>Year ended 31 March 2005 £'000</b>	<b>Year ended 31 March 2006 £'000</b>	<b>Five month period ended 31 August 2006 £'000</b>
Turnover	579	652	1,411	1,023
Overhead	(529)	(865)	(1,364)	(893)
Operating profit/(loss)	50	(213)	47	130
Net interest	(18)	(12)	(29)	(48)
Profit/(loss) before taxation	32	(225)	18	82
Taxation	7	-	-	-
Retained profit/(loss)	39	(225)	18	82

The results show strong sales growth in the financial year to 31 March 2006 and in the 5 months to 31 August 2006. This reflects the benefit of an increased investment in sales and marketing and in a refocusing of the Company's approach to selling its products. The cost of that investment is reflected in rising personnel and other operating overheads in the period.

The consolidated net liabilities of Imaginatik as at 31 August 2006 were as follows:

	<b>31 August 2006 £'000</b>
Fixed assets	18
Cash	263
Debtors	631
Creditors	(1,189)
Loans falling due in more than one year	(110)
Net liabilities	(387)



Creditors at 31 August 2006 include deferred income of £187,000. Pursuant to the Loan Conversion Arrangements, approximately £240,000 of certain loans made to the Company have been capitalised, conditionally upon Admission.

**The whole of the contents of Part III should be read and investors should not just rely on the summarised financial information presented above.**

#### **CURRENT TRADING AND FUTURE PROSPECTS**

The Company's new business pipeline is significantly ahead of the same period last year, and its sales have continued strongly since 31 August 2006. Aggregate revenue for the six months to 30 September 2006 was £1.3 million. Accordingly, the Board views the Company's future with confidence.

#### **DIVIDEND POLICY**

The Directors anticipate that initially earnings will be retained by the Company in order to develop and grow the business. The Directors anticipate the Company paying a dividend once the initial phase of growth is completed and the Group is cash generative, and in doing so they will seek to take into account both the requirements of the business and the expectations of the Shareholders.

#### **DIRECTORS' INTERESTS, LOCK-INS AND ORDERLY MARKET ARRANGEMENTS**

The Directors' aggregate interests in Ordinary Shares following Admission will amount to 85,872,092 Ordinary Shares (including the interest in Ordinary Shares held by Mr Turrell's wife, Dr Yvonne Lindow) representing approximately 73.65 per cent. of the Enlarged Share Capital of the Company and options over a further 5,000,000 Ordinary Shares under the Share Option Scheme, further details of which are set out in paragraph 7 of Part IV of this document.

The Directors and certain other shareholders have agreed not to dispose of any interests in the securities of the Company within a period of 12 months following Admission (the "Lock-in Period"), in specified circumstances. It has been agreed that Mr Turrell may grant security interests over not more than 20,000,000 Ordinary Shares in aggregate during the Lock-in Period provided that the terms on which the security interests are granted provide for the lender to enter into a lock-in agreement on similar terms to those entered into by Mr Turrell.

In addition the Directors and certain other shareholders have agreed to orderly market arrangements covering the following 12 month period after the lock-in, under which the relevant shareholders may not inter alia dispose of shares at less than the Placing Price or at a price lower than a price at which they had sold shares in the previous three months, without the agreement of W.H Ireland (or such broker as may be appointed by the Company from time to time).

#### **SUBSTANTIAL SHAREHOLDER AND CITY CODE ON TAKEOVERS AND MERGERS**

On Admission, Mark Turrell will be interested in 82,984,147 Ordinary Shares (including the interest in Ordinary Shares and options held by his wife, Dr Yvonne Lindow), representing 71.17 per cent. of the Enlarged Share Capital of the Company. The City Code on Takeovers and Mergers requires that any shareholder who acquires shares which carry more than 30 per cent. of the voting rights of a company subject to the City Code, or increases their holding if they are already interested in between 30 per cent. and 50 per cent. of the voting rights of such a company, must make a bid for the remaining shares they do not own. The Company is subject to the City Code. As Mr Turrell will be interested in more than 50 per cent. of the voting rights of the Company at Admission, he will be able to acquire further shares in the Company without incurring any obligation to make a mandatory bid under the City Code. However, if for any reason his interest falls below 50 per cent. in the future, then he will be subject to the restrictions outlined above.

#### **CONTROLLING SHAREHOLDER AGREEMENT**

Mr Turrell has entered into a controlling shareholder agreement with the Company, the principal terms of which are summarised in paragraph 8.1.5 of Part IV of this document.

#### **CORPORATE GOVERNANCE**

The Directors recognise the importance of sound corporate governance and the guidelines set out in the Principles of Good Corporate Governance and Code of Best Practice (the "Combined Code"). Whilst AIM companies are not obliged to comply with the Combined Code, the Directors do intend to comply with the Combined Code so far as is appropriate having regard to the size and nature of the various companies which

comprise the Group. The Board will take such measures so far as practicable to comply with the Combined Code and in addition, the Quoted Companies Alliance (“QCA”) Guidelines for AIM Companies.

The Company has three non-executive Directors. The Board retains full and effective control over the Company. The Company holds regular Board meetings at which financial, operational and other reports are considered and, where appropriate, voted on. Apart from regular meetings, additional meetings will be arranged when necessary to review strategy, planning, operational and financial performance, risk, capital expenditure and human resource. The Board is also responsible for monitoring the activities of the executive management. To enable the Board to perform its duties, all directors will have full access to all relevant information. If necessary the non-executive directors may take independent professional advice at the Group’s expense.

The Directors have established an audit committee and a remuneration committee with formally delegated duties and responsibilities to operate with effect from Admission.

#### *The audit committee*

The audit committee, which upon Admission will comprise Howard Marshall, Phillip Nutburn and Paul Morland, is to be chaired by Paul Morland, and will meet at least twice a year. The committee will review the Group’s annual and interim financial statements before submission to the Board for approval. The committee will also review regular reports from management and the external auditors on accounting and internal control matters. Where appropriate, the committee will monitor the progress of action taken in relation to such matters. The committee will also recommend the appointment of, and review the fees of, the external auditors.

#### *The remuneration committee*

The remuneration committee, which upon Admission will comprise Howard Marshall, Paul Morland and Phillip Nutburn, is to be chaired by Phillip Nutburn, and will meet twice a year. It will be responsible for reviewing the performance of the executive directors and for setting the scale and structure of their remuneration, paying due regard to the interests of Shareholders as a whole and the performance of the Group. The remuneration committee will also determine allocations of any warrants or options granted under any share option scheme adopted by the Company in the future and will be responsible for setting any performance criteria relevant to such warrants or options.

The Directors will comply with Rule 21 of the AIM Rules relating to Directors’ dealings and will take all reasonable steps to ensure compliance by the Company’s applicable employees. The Company has adopted and will operate a share dealing code for Directors and employees in accordance with the AIM Rules.

### **REASONS FOR THE PLACING, USE OF PROCEEDS AND ADMISSION**

The net proceeds of the Placing, being approximately £1.5 million, are intended to be used to continue its growth and take advantage of the expanding market for its products, by hiring further staff in all areas of the Company in both the UK and US, to repay undrawn salaries of certain Directors and senior managers amounting to approximately £230,000 and to repay third party borrowings amounting in aggregate to £100,000. The Directors believe that the associated benefits of the Placing and Admission include:

**(i) Increased Corporate Profile**

The profile of the business, among industry peers and in attracting new clients, should benefit from the status of being part of an AIM quoted company.

**(ii) Incentivisation of Key Staff**

The use of publicly traded equity to implement appropriate share option schemes to incentivise employees and directors, as the Company grows.

**(iii) Acquisition Consideration**

The issue of publicly traded shares as consideration is potentially more attractive to vendors than the issue of non-publicly traded shares and the Directors may wish to consider this as a form of consideration if an acquisition opportunity is identified in the future.

**(iv) Access to Capital Markets**

The Company may need to raise further funds in the future to develop its business or to finance any cash element of consideration for an acquisition if one is identified.

## DETAILS OF THE PLACING

The Company is issuing 27,793,345 new Ordinary Shares under the Placing at the Placing Price to raise £1.5 million (net of expenses). The Placing Shares will represent approximately 23.84 per cent. of the Enlarged Share Capital following the Placing and at Admission will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Ordinary Shares.

The Company and the Directors have entered into the Placing Agreement with W.H. Ireland. The Placing is not being underwritten. The Placing Shares have been conditionally placed with institutional and other investors by W.H. Ireland as agent of the Company.

The Placing is conditional upon the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms, and Admission becoming effective by 15 December 2006 (or such later time and date as the Company and W.H. Ireland may agree). Further details of the Placing Agreement are set out in paragraph 8.1.2 of Part IV of this document.

Howard Marshall and Paul Morland are subscribing in aggregate £60,000 in the Placing. In addition the non-executive Directors are applying £70,000 of their remuneration towards subscribing for new Ordinary Shares at the Placing Price.

The Placing Shares were created under the Act and can be issued in certificated or uncertificated form. The ISIN number for the Ordinary Shares is GB00B1G2HX83.

## SHARE OPTIONS

The Company has granted options over 11,691,012 Ordinary Shares to certain parties and all employees conditionally upon Admission. It is currently intended that options in favour of Directors and the Group's employees to subscribe for Ordinary Shares would not exceed 12.5 per cent. of the Company's issued share capital from time to time. Further details on the Share Option Scheme are set out in paragraph 7 of Part IV of this document.

## TAXATION

Information regarding taxation is set out in paragraph 13 of Part IV of this document. These details are, however, intended only as a general guide to the current tax position under UK taxation law. **If you are in any doubt as to your tax position, you should consult an appropriate professional adviser immediately.**

The Company has received advance assurance from H M Revenue & Customs on the basis of information supplied by the Company that the Ordinary Shares will qualify for Enterprise Investment Scheme, Venture Capital Trust and Corporate Venturing Scheme relief ("EIS/VCT/CVS relief"). The Directors anticipate that the Group will continue to be a qualifying company for the purpose of EIS/VCT/CVS relief, although no assurance of this can be given.

## SETTLEMENT, DEALINGS AND CREST

Application has been made to London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and dealings will commence in the Enlarged Share Capital on 15 December 2006. No application has or will be made for the Enlarged Share Capital to be admitted to trading or to be listed on any other stock exchange.

The Company has applied for the Enlarged Share Capital to be admitted to CREST and it is expected that the Enlarged Share Capital will be so admitted and accordingly enabled for settlement in CREST on the date of Admission.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. All of the Ordinary Shares will be in registered form and no temporary documents of title will be issued.

## FURTHER INFORMATION

Your attention is drawn to Part II of this document which contains certain risk and other factors relating to any investment in the Company and to Parts III and IV of this document which contain further additional information on the Group.

## PART II

### RISK AND OTHER FACTORS

In addition to the other relevant information set out in this document, the following specific factors should be considered carefully when evaluating an investment in the Group. The investment offered in this document may not be suitable for all of its recipients. If you are in any doubt as to the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective investor should consider carefully whether an investment in the Group is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her.

In addition to the usual risks associated with an investment in a business at a relatively early stage of its development, the Directors consider that the risks and other factors described below are the most significant and should be considered carefully together with all the information contained in this document, prior to applying for Placing Shares. It should be noted that the risks described below are not the only risks faced by the Group; there may be additional risks that the Directors currently consider not to be material or of which they are currently unaware.

If any of the risks referred to in this Part II crystallise, the Group's business, financial condition, results or future operations could be materially adversely affected. In such case, the price of its shares could go down and investors may lose all or part of their investment. The risks set out below do not appear in any order of priority or importance.

#### Acquiring new clients

Imaginatik's future growth and expected profitability is primarily dependent on securing a significant number of new clients. Imaginatik cannot be certain that the rate of client acquisition will be sufficient to deliver the expected revenue and profitability. It is possible that the market place will not grow as rapidly as the Directors expect and/or that the Group's sales and marketing efforts are not going to be as successful as planned.

#### Volatility of sales and profits

In any given year, the Company's profit arising from any individual sale or transaction may be a significant proportion of the Company's annual profit and therefore the trend of sales and profits from year to year may be affected by the timing of individual transactions.

#### Competition

There are several companies against which Imaginatik regularly competes for new business. It is possible that one or more companies may develop their business and product offering, gaining widespread acceptance and increased market share to the detriment of Imaginatik. The funds raised in the Placing will be used by the Company to provide the necessary resources to seek to consolidate Imaginatik's position in this market.

#### Currency risk

The Company's revenues are largely denominated in US\$ with a cost base that is both in Sterling and US\$. As a result, the Company's profits and cash flows will be subject to exchange rate fluctuations. Any significant and sustained appreciation of sterling could serve to materially reduce the Company's cash flows and profitability. Fluctuations in exchange rates between currencies in which the Company operates may cause fluctuations in its financial results, which are not necessarily related to the Company's underlying operations.

#### Dependence on key personnel and employees

In common with many smaller companies, the Company's future success will depend upon the services of its current and future senior management team and employees, especially Mr Turrell. Whilst it has entered into contractual arrangements with the aim of securing the services of the Directors and key employees, details of which are set out in Part IV of this document, the retention of their, and any future directors' or key employees' services cannot be guaranteed. If one or more of these persons were to cease providing their services to the Group, this may have a material adverse effect in the Company's business.

**Market risk**

The innovation market is rapidly developing and in order to continue to attract and maintain business in this sector the Company must continue to innovate its own products and services. There can be no assurance that its offering will continue to be attractive to its current customers or will be sufficiently attractive to persuade new clients to purchase them.

**Potential requirement for funds**

It may be necessary to raise additional equity or debt financing to cover working capital requirements in the future. Any additional equity financing may be dilutive to Shareholders and debt financing, if available, may involve restrictions on financing and operating activities. There can be no assurance that such funding, if required by the Company, will be made available to it and, if such funding is available that it will be offered on acceptable terms.

If the Company's strategy does not develop as expected it could have a material adverse effect on the Company's business, financial condition and prospects.

**Share price effect of sales of Ordinary Shares by a Director**

The market price of Ordinary Shares could decline significantly as a result of any sales by the Directors or any sales of material numbers of Ordinary Shares or the perception by the market that such sales could or would occur.

**Share price volatility and liquidity**

The share price of publicly traded companies can be highly volatile. The price at which the Ordinary Shares will be quoted and the price which Shareholders may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Company, its operations and its sector, and some which may affect quoted companies generally.

**The value of Ordinary Shares can decrease as well as increase.**

**Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. It may be more difficult for an investor to realise his investment on AIM than to realise an investment in a company whose shares are quoted on the Official List of the UKLA.**

## PART III

### ACCOUNTANTS' REPORT ON IMAGINATIK PLC

The Directors  
Imaginatik Plc  
22 Melton Street  
London  
NW1 2BW

and

The Directors  
W.H. Ireland Limited  
24 Bennetts Hill  
Birmingham  
B2 5QP

# Tenon audit

Charnwood House  
Gregory Boulevard  
Nottingham  
NG7 6NX

11 December 2006

Dear Sirs,

**Accountants' report on the consolidated historical financial information of the Group for the three years to 31 March 2006 and the five month period to 31 August 2006**

#### **Imaginatik Plc and subsidiary companies ("the Group")**

We report on the financial information set out on pages 24 to 40. This financial information has been prepared for inclusion in the AIM Admission Document dated 11 December 2006 of the Group on the basis of the accounting policies set out in note 1 to the financial information. This report is required by Paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

The Directors of the Group are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with UK accounting standards.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

#### **Opinion**

In our opinion, the financial information, for the purposes of the AIM Admission Document dated 11 December 2006, gives a true and fair view of the state of affairs of the Group as at the dates stated and of its profits and losses, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 1 and in accordance with the applicable financial reporting framework as described in the same note.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have 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 AIM Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

**Tenon Audit Limited**

Registered Auditor



## 1. PROFIT AND LOSS ACCOUNTS

For the four periods ended 31 August 2006

		31 March 2004 (restated)	31 March 2005 (restated)	31 March 2006	5 months ended 31 August 2006
	Notes	£	£	£	£
<b>TURNOVER</b>	2	579,199	651,680	1,410,610	1,022,868
Other external charges		(35,867)	(36,608)	(61,582)	(58,452)
Staff costs	5	(329,894)	(469,532)	(791,649)	(586,390)
Depreciation		–	–	(2,888)	(4,035)
Other operating charges		(163,064)	(358,766)	(507,873)	(244,213)
<b>OPERATING PROFIT/(LOSS)</b>	3	50,374	(213,226)	46,618	129,778
Bank interest receivable		–	–	–	433
Interest payable and similar charges	6	(18,440)	(11,655)	(28,977)	(47,927)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		31,934	(224,881)	17,641	82,284
Tax on profit/(loss) on ordinary activities	7	7,198	–	–	–
<b>RETAINED PROFIT/(LOSS) FOR THE PERIOD</b>	15	39,132	(224,881)	17,641	82,284
Earnings/(loss) per share – basic	8	0.035p	(0.199)p	0.016p	0.073p
– diluted		0.032p	(0.181)p	0.014p	0.066p

All recognised gains and losses are included in the profit and loss account above and all activities relate to continuing operations.

## 2. RECONCILIATION OF SHAREHOLDERS' DEFICIT

For the four periods ended 31 August 2006

		31 March 2004 (restated)	31 March 2005	31 March 2006	5 months ended 31 August 2006
	Notes	£	£	£	£
Profit/(loss) for the financial period		39,132	(224,881)	17,641	82,284
Shareholders' deficit at beginning of period	15	(301,492)	(262,360)	(487,241)	(469,600)
Shareholders' deficit at end of period	15	(262,360)	(487,241)	(469,600)	(387,316)



### 3. BALANCE SHEETS

		At 31 March 2004 (restated) £	At 31 March 2005 £	At 31 March 2006 £	At 31 August 2006 £
<b>FIXED ASSETS</b>					
Tangible assets	9	–	–	8,504	17,892
		–	–	8,504	17,892
<b>CURRENT ASSETS</b>					
Debtors	11	58,798	80,650	477,732	630,823
Cash at bank		–	–	142,426	262,877
		58,798	80,650	620,158	893,700
<b>CREDITORS:</b> amounts falling due within one year	12	(321,158)	(567,891)	(936,391)	(1,188,631)
<b>NET CURRENT LIABILITIES</b>		(262,360)	(487,241)	(316,233)	(294,931)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		(262,360)	(487,241)	(307,729)	(277,039)
<b>CREDITORS:</b> amounts falling due after more than one year	13	–	–	(161,871)	(110,277)
<b>NET LIABILITIES</b>		<u>(262,360)</u>	<u>(487,241)</u>	<u>(469,600)</u>	<u>(387,316)</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	14	1	1	1	1
Profit and loss account	15	(262,361)	(487,242)	(469,601)	(387,317)
<b>EQUITY SHAREHOLDERS' DEFICIT</b>	15	<u>(262,360)</u>	<u>(487,241)</u>	<u>(469,600)</u>	<u>(387,316)</u>

#### 4. STATEMENT OF CASH FLOWS

For the four periods ended 31 August 2006

		31 March 2004 (restated)	31 March 2005	31 March 2006	5 months ended 31 August 2006
	Notes	£	£	£	£
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	16(a)	45,275	5,236	(76,392)	151,964
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>					
Interest received		–	–	–	433
Interest paid		(18,440)	(11,655)	(14,875)	(8,596)
		(18,440)	(11,655)	(14,875)	(8,163)
<b>TAXATION</b>					
Corporation tax received		–	–	7,198	–
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>					
Payments to acquire tangible fixed assets		–	–	(11,392)	(13,423)
<b>NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING</b>		26,835	(6,419)	(95,461)	130,378
<b>FINANCING</b>					
Inception of loans		–	–	293,474	–
Loan repayments		–	–	(6,654)	(9,927)
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING</b>		–	–	286,820	(9,927)
<b>INCREASE/(DECREASE) IN CASH</b>	16(b)	26,835	(6,419)	191,359	120,451

**5. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

		<b>31 March 2004 (restated)</b>	<b>31 March 2005</b>	<b>31 March 2006</b>	<b>5 months ended 31 August 2006</b>
	<b>Notes</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Increase/(decrease) in cash	16(b)	26,835	(6,419)	191,359	120,451
Inception of loans		–	–	(293,474)	–
Repayment of loans		–	–	6,654	9,927
		<hr/>	<hr/>	<hr/>	<hr/>
Change in net debt resulting from cash flows		26,835	(6,419)	(95,461)	130,378
<b>NET DEBT AT BEGINNING OF PERIOD</b>	16(b)	<hr/> (69,349) <hr/>	<hr/> (42,514) <hr/>	<hr/> (48,933) <hr/>	<hr/> (144,394) <hr/>
<b>NET DEBT AT END OF PERIOD</b>	16(b)	<hr/> (42,514) <hr/> <hr/>	<hr/> (48,933) <hr/> <hr/>	<hr/> (144,394) <hr/> <hr/>	<hr/> (14,016) <hr/> <hr/>

## 6. NOTES TO THE FINANCIAL INFORMATION

### 1. ACCOUNTING POLICIES

#### *Basis of preparation*

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

Following a review by the Directors it was concluded that the Companies Act format 2 presentation of the Group's profit and loss account is more appropriate to the reporting of the Group's activities. Previously format 1 was used. This change in presentation has no impact on the reported results, net assets or cash flows.

The financial information has been prepared on the following basis:

#### *Year ended 31 March 2004*

The financial information for the year ended 31 March 2004 consists of the financial statements of Imaginatik Limited of the same date.

During the year ended 31 March 2005 the directors identified that the financial statements prepared for the year ended 31 March 2004 incorrectly reflected a number of underlying transactions. Accordingly the financial statements in respect of the year ended 31 March 2004 were restated to reflect the correcting adjustments. These adjustments affected all the prior year financial statement statutory headings. The profit for the year ended 31 March 2004 was increased by £28,200 and the net liabilities increased by £139,974 as a result of the restatement. The errors arose as a result of the non-operation of certain accounting controls and the directors were satisfied that the remedial actions taken prevented any reoccurrence.

#### *Year ended 31 March 2005*

The financial information for the year ended 31 March 2005 consists of the financial statements of Imaginatik Limited of the same date.

#### *Year ended 31 March 2006*

The financial information for the year ended 31 March 2006 consists of the financial statements of Imaginatik Limited of the same date.

#### *Period ended 31 August 2006*

A subsidiary company, Imaginatik Holdings Plc was incorporated on 5 April 2006. The company changed its name to Imaginatik (Goswell) Limited on 7 September 2006. The company was a dormant subsidiary until 20 October 2006 at which point it acquired certain assets from its parent company with effect from 31 August 2006 and commenced trading. The Group also formed Imaginatik, Inc during the period which has remained dormant since incorporation.

The financial information for the period ended 31 August 2006 consolidates the financial statements of Imaginatik Plc and its subsidiary undertakings at that date.

On 24 October 2006 Imaginatik Limited was re-registered as Imaginatik Plc.

#### *Turnover*

Income for the Group is derived from a number of different sources. Following the principles of FRS 5 Application Note G, the policies for income recognition in respect of each of the different sources of income are such that income is recognised to the extent that the Group has obtained the right to consideration through its performance or delivery of a service in the period of account. Certain forms of income require a contractual obligation to be entered into between the Group and the customer. In applying the income recognition policies below where there is a requirement for a contract to be signed, income is recognised in accordance with the policy when the contract has been signed or there is persuasive evidence that the contract will be signed.

- (a) **Conference Income:**  
Income receivable for any conferences organised by the Group is recognised in the month that the conference occurs.
- (b) **Consulting:**  
Income derived from consulting workshops subject to contract is recognised in the month in which the workshops take place. Income from longer term consulting arrangements is recognised evenly over the term of the contract.
- (c) **Development:**  
Custom development work income is recognised in the month in which the work is performed and enhancements delivered to the client.
- (d) **Hosting:**  
Hosting income is recognised evenly over the term of the contract. Where hosting is included as part of a bundle within a contract and is not specifically itemised, an apportionment is taken to estimate the hosting element of the contract.
- (e) **Hosting Setup:**  
Income derived from the initial hosting setup of a customer environment is recognised in the period in which the work is performed.
- (f) **Licence Fees – Annual & Perpetual:**  
Income which arises from annual licences is recognised in full in the period of signature and annually thereafter. Income arising from perpetual licences is recognised in full in the period in which the contractual agreement has been signed or where there is persuasive evidence that the contract will be signed.
- (g) **Actual User Licence:**  
Income that arises from actual user licences is recognised at the point(s) where there is persuasive evidence that income has been generated by actual users of the system and the Group is entitled to consideration.
- (h) **Maintenance:**  
Income derived from maintenance fees is recognised over the term of the contract. Where a maintenance fee is not itemised in the contract but is still provided as part of the contractual arrangement, an apportionment is taken as the maintenance amount.
- (i) **Support:**  
Income derived from technical support services is recognised in the period in which the support or service is provided to the client.
- (j) **Software Rental:**  
Income derived from the short term rental of software is recognised in the first month in which the client uses the software for an event.
- (k) **User Training:**  
Income derived from the provision of training is recognised in the month during which that training is provided to the client. The same principle applies whether the training is supplied by in-house personnel or is delivered by a subcontractor.

### ***Research and development***

Research and development expenditure is written off in the period in which it is incurred.

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

Fixed assets are stated at cost less any provision for depreciation. Cost includes all incidental expenditure incurred in bringing the asset into working condition for its intended use.

Depreciation is calculated so as to write off the cost of an asset, net of anticipated disposal proceeds, over the useful economic life of that asset as follows:

Fixtures & Fittings	– 33 per cent. straight line
Equipment	– 33 per cent. to 50 per cent. straight line

Depreciation is charged from the month of purchase.

#### ***Operating lease agreements***

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

#### ***Deferred taxation***

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred by the balance sheet date with certain limited exceptions.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### ***Foreign currencies***

Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

#### ***Financial instruments***

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group finances its operations through a mixture of retained profits and where necessary to fund expansion or capital expenditure programmes through bank and other borrowings.

The management objectives are to:

- Retain sufficient liquid funds to enable the Group to meet its day to day obligations as they fall due whilst maximising returns on surplus funds;
- Minimise the Group's exposure to fluctuating interest rates when seeking new borrowings; and
- Match the repayment schedule of any external borrowings or overdrafts with the expected future cash flows expected to arise from the Group's trading activities.

The Group's surplus funds are held primarily in short term variable rate deposit accounts. The Directors believe that this gives them the flexibility to release cash resources at short notice and also allows them to take advantage of changing conditions in the finance markets as they arise. All deposits are with reputable European and American banks and the Directors believe their choice of bank minimises any credit risk associated with not placing funds on deposit with a UK clearing bank.

The Group does not use hedge accounting and considers the financial impact arising as a result of movements in exchange rates to be insignificant as a result of the utilisation of surplus funds in the local currency of the country of operation. The Directors review this policy from time to time and will implement hedge accounting where the risk arising from movements in exchange rates become significant.

The Group's borrowings are in variable and fixed interest loans which exposes the Group to a cash flow risk associated with changing interest payments. The Directors believe the ability to take advantage of falls in interest rates is more important than the certainty of knowing their financial commitments when managing the Group's trading activities.

## 2. TURNOVER

The Group's principal activity is to provide innovation software and related professional services.

Software comprises the delivery of various solutions to customers' needs and is supported by the provision of a range of services including hosting, innovation management and implementation solutions. Further information in respect of the forms of income derived in performing the principal activity are set out in Note 1 to these financial statements under the Turnover accounting policy definition.

The turnover and profit before tax are attributable to the one principal activity of the Group.

An analysis of turnover is given below:

	<b>31 March 2004 (restated) £</b>	<b>31 March 2005 £</b>	<b>31 March 2006 £</b>	<b>5 months ended 31 August 2006 £</b>
United Kingdom and Europe	100,357	120,611	198,990	77,594
USA	478,842	531,069	1,211,620	945,274
	<u>579,199</u>	<u>651,680</u>	<u>1,410,610</u>	<u>1,022,868</u>

## 3. OPERATING PROFIT/(LOSS)

This is stated after charging:

	<b>31 March 2004 (restated) £</b>	<b>31 March 2005 £</b>	<b>31 March 2006 £</b>	<b>5 months ended 31 August 2006 £</b>
Auditor's remuneration – audit services	–	3,500	3,500	3,600
– non-audit services	–	2,750	19,405	8,550
	<u>-</u>	<u>6,250</u>	<u>22,905</u>	<u>12,150</u>
Depreciation of owned assets	<u>-</u>	<u>-</u>	<u>2,888</u>	<u>4,035</u>
Operating lease costs – Land and buildings	<u>21,328</u>	<u>28,472</u>	<u>36,438</u>	<u>21,727</u>
Research and development expenditure	<u>44,988</u>	<u>22,098</u>	<u>15,457</u>	<u>12,246</u>
Net loss on foreign currency translation	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,607</u>

#### 4. DIRECTORS' EMOLUMENTS

The remuneration of the directors of Imaginatik Plc for the four periods ended 31 August 2006 are as follows and all relate to basic salary and fees:

	31 March 2004 (restated)	31 March 2005	31 March 2006	5 months ended 31 August 2006
	£	£	£	£
M C Turrell	38,478	57,143	68,311	40,541
A K Wainwright	67,354	78,390	83,415	36,175
Y U Lindow	45,000	67,775	60,000	39,092
S K Taylor	-	-	-	50,000
	<u>150,832</u>	<u>203,308</u>	<u>211,726</u>	<u>165,808</u>

#### 5. STAFF COSTS

	31 March 2004 (restated)	31 March 2005	31 March 2006	5 months ended 31 August 2006
	£	£	£	£
Wages and salaries (including executive directors' remuneration)	281,194	413,296	711,283	537,162
Social security costs	40,263	47,124	70,525	46,311
Other pension costs	8,437	9,112	9,841	2,917
	<u>329,894</u>	<u>469,532</u>	<u>791,649</u>	<u>586,390</u>

The average monthly number of employees (including executive directors) during each period was as follows:

	31 March 2004	31 March 2005	31 March 2006	5 months ended 31 August 2006
	No.	No.	No.	No.
Sales and administrative	<u>7</u>	<u>9</u>	<u>15</u>	<u>23</u>

#### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	31 March 2004 (restated)	31 March 2005	31 March 2006	5 months ended 31 August 2006
	£	£	£	£
Bank loans and overdrafts	18,440	11,655	20,185	1,881
Other loans	-	-	8,792	46,046
	<u>18,440</u>	<u>11,655</u>	<u>28,977</u>	<u>47,927</u>



## 7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

(a) The taxation credit is made up as follows:

	<b>31 March 2004</b>	<b>31 March 2005</b>	<b>31 March 2006</b>	<b>5 months ended 31 August 2006</b>
	£	£	£	£
Corporation tax	(7,198)	–	–	–
Adjustment in respect of prior periods	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total current tax (note 7(b))	(7,198)	–	–	–
Deferred taxation	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>(7,198)</u>	<u>–</u>	<u>–</u>	<u>–</u>

(b) Factors affecting tax charge for the period

The tax assessed for the period is different to the standard rate of corporation tax in the United Kingdom of 19 per cent. (31 March 2006: 19 per cent., 31 March 2005: 19 per cent., 31 March 2004: 19 per cent.). The difference is explained as follows:

	<b>31 March 2004</b>	<b>31 March 2005</b>	<b>31 March 2006</b>	<b>5 months ended 31 August 2006</b>
	£	£	£	£
Profit/(loss) on ordinary activities before tax	39,132	(224,881)	17,641	82,284
	<u>39,132</u>	<u>(224,881)</u>	<u>17,641</u>	<u>82,284</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax, in the United Kingdom 19% (31 March 2006: 19%, 31 March 2005: 19%, 31 March 2004: 19%)	7,435	(42,727)	3,352	15,634
Effects of:				
Expenses not deductible for tax purposes	–	29	107	839
Capital allowances for period in excess of depreciation	–	1,523	(723)	(1,138)
Other timing differences	–	7,456	14,190	6,695
Utilisation of tax losses	(7,435)	–	(16,926)	(22,030)
Adjustment to tax charge in respect of prior periods	–	(26,595)	–	–
Tax losses carried forward	–	60,314	–	–
Research and development tax claim	(7,198)	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Current tax credit in period	(7,198)	–	–	–
	<u>(7,198)</u>	<u>–</u>	<u>–</u>	<u>–</u>

(c) As at 31 March 2006 the Group has tax losses of £239,292 available for offset against future taxable profits.

## 8. EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on earnings of £82,284 (31 March 2006: £17,641, 31 March 2005: loss of £224,881, 31 March 2004: £39,132), and on 112,785,848 (31 March 2006: 112,785,848, 31 March 2005: 112,785,848, 31 March 2004: 112,785,848 ) ordinary shares.

The calculation of diluted earnings per share is based upon 124,207,848 (31 March 2006: 124,207,848, 31 March 2005: 124,207,848, 31 March 2004: 124,207,848) ordinary shares.

## 9. TANGIBLE FIXED ASSETS

	<b>Fixtures and Fittings £</b>	<b>Equipment £</b>	<b>Total £</b>
<i>Cost</i>			
At 1 April 2003, 1 April 2004 and 1 April 2005	–	–	–
Additions	4,713	6,679	11,392
At 1 April 2006	4,713	6,679	11,392
Additions	1,390	12,033	13,423
At 31 August 2006	<u>6,103</u>	<u>18,712</u>	<u>24,815</u>
<i>Depreciation:</i>			
At 1 April 2003, 1 April 2004 and 1 April 2005	–	–	–
Provided during the year	1,208	1,680	2,888
At 1 April 2006	1,208	1,680	2,888
Provided during the period	848	3,187	4,035
At 31 August 2006	<u>2,056</u>	<u>4,867</u>	<u>6,923</u>
Net book value at 31 March 2004 and 31 March 2005	<u>–</u>	<u>–</u>	<u>–</u>
Net book value at 31 March 2006	<u>3,505</u>	<u>4,999</u>	<u>8,504</u>
Net book value at 31 August 2006	<u>4,047</u>	<u>13,845</u>	<u>17,892</u>

## 10. SUBSIDIARY UNDERTAKINGS

The following subsidiary undertakings are 100 per cent. owned and incorporated as set out in the table below.

<b>Subsidiary undertaking</b>	<b>Shareholding</b>	<b>Description of capital owned</b>	<b>Country of incorporation</b>
Imaginatik, Inc	100 per cent.	\$10 ordinary share	Delaware, United States of America
Imaginatik (Goswell) Limited	100 per cent.	£1 ordinary share	England and Wales

Imaginatik, Inc has not traded since the date of its incorporation.

Imaginatik (Goswell) Limited's principal activity is to provide innovation software and related professional services.

## 11. DEBTORS

	At 31 March 2004 (restated) £	At 31 March 2005 £	At 31 March 2006 £	At 31 August 2006 £
Trade debtors	55,115	76,784	437,253	552,547
Other debtors	3,683	3,866	5,403	–
Prepayments and accrued income	–	–	35,076	78,276
	<u>58,798</u>	<u>80,650</u>	<u>477,732</u>	<u>630,823</u>

## 12. CREDITORS: amounts falling due within one year

	At 31 March 2004 (restated) £	At 31 March 2005 £	At 31 March 2006 £	At 31 August 2006 £
Other loans	–	–	98,333	140,000
Bank loans and overdrafts	42,514	48,933	26,616	26,616
Trade creditors	–	138,179	185,502	184,798
Other taxes and social security costs	–	40,684	26,681	82,624
Accruals and deferred income	278,644	340,095	599,259	754,593
	<u>321,158</u>	<u>567,891</u>	<u>936,391</u>	<u>1,188,631</u>

Accruals and deferred income and other loans include amounts owing to the Directors of the Group, details of these amounts may be found in note 18. These amounts are to be repaid as cash resource becomes available upon admission. They bear interest at rates ranging between 0 per cent. and 15 per cent. per annum.

Other loans include a development loan and a related party loan, further details of which may be found in note 13.

The following liabilities disclosed under creditors falling due within one year are secured. Further details are given in note 13 below.

	At 31 March 2004 (restated) £	At 31 March 2005 £	At 31 March 2006 £	At 31 August 2006 £
Other loans	–	–	23,333	40,000
Bank loans and overdrafts	42,514	48,933	26,616	26,616
	<u>42,514</u>	<u>48,933</u>	<u>49,949</u>	<u>66,616</u>

**13. CREDITORS: amounts falling due after more than one year**

	At 31 March 2004 £	At 31 March 2005 £	At 31 March 2006 £	At 31 August 2006 £
Bank loans	–	–	59,487	50,277
Other loans	–	–	102,384	60,000
	<u>–</u>	<u>–</u>	<u>161,871</u>	<u>110,277</u>

The bank and other loans fall due for payment as follows:

	At 31 March 2004 £	At 31 March 2005 £	At 31 March 2006 £	At 31 August 2006 £
Amounts falling due:				
In one year or less or on demand	42,514	48,933	124,949	166,616
Between one and two years	–	–	91,616	69,951
Between two and five years	–	–	62,120	40,326
In five years or more	–	–	8,135	–
	<u>42,514</u>	<u>48,933</u>	<u>286,820</u>	<u>276,893</u>
Less: included in creditors: amounts falling due within one year	(42,514)	(48,933)	(124,949)	(166,616)
	<u>–</u>	<u>–</u>	<u>161,871</u>	<u>110,277</u>

The bank loan and overdrafts are secured by way of a personal guarantee provided by Mr M C Turrell, a director of the Group. At 31 August 2006 overdrafts were £nil (31 March 2006: £nil, 31 March 2005: £48,933, 31 March 2004: £42,514).

The other loans are secured by way of key man insurance policies in the names of Dr Y U Lindow and Mr M C Turrell, both directors of the Group.

The bank loan bears interest at 4 per cent. above the Barclays base rate. Other loans include a development loan of £100,000 (31 March 2006: £100,000, 31 March 2005: £nil, 31 March 2004: £nil) that bears interest at 6 per cent. above the Bank of Scotland base rate. Also included within other loans is a related party loan (provided by a relation of A K Wainwright, a director of the company) of £100,000 (31 March 2006: £100,000, 31 March 2005: £nil, 31 March 2004: £nil) that bears interest at 15 per cent. per annum.

The bank loan and development loan, included in other loans, are repaid monthly in equal instalments. The related party loan is to be repaid through the conversion into ordinary share capital upon Admission.

**14. SHARE CAPITAL**

Authorised	At 31 March 2004		At 31 March 2005		At 31 March 2006		At 31 August 2006	
	Number	£	Number	£	Number	£	Number	£
Ordinary shares of £1 each	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

#### 14. SHARE CAPITAL (continued)

Allotted, called up and fully paid	At 31 March 2004		At 31 March 2005		At 31 March 2006		At 31 August 2006	
	Number	£	Number	£	Number	£	Number	£
Ordinary shares of £1 each	1	1	1	1	1	1	1	1

The parent company of the Group was incorporated on 1 March 2000 with an authorised share capital of £1,000 and issued and allotted share capital comprising one ordinary share of £1.

Subsequent to the balance sheet date the authorised share capital of the Company was increased by the creation of a further 49,000 £1 ordinary shares, at which point 49,999 £1 ordinary shares were issued at par by the capitalisation of £49,999 of certain amounts outstanding to M C Turrell. The called up and issued share capital was then subdivided to convert the 50,000 ordinary shares of £1 each into 80,000,000 ordinary shares of 0.0625p each at which point the Company's authorised share capital was increased by the creation of an additional 420,000,000 0.0625p ordinary shares.

#### 15. SHARE CAPITAL AND RESERVES

	Share capital £	Profit and loss account £	Total £
At 1 April 2003 (restated)	1	(301,493)	(301,492)
Profit for the year (restated)	–	39,132	39,132
At 1 April 2004 (restated)	1	(262,361)	(262,360)
Loss for the year (restated)	–	(224,881)	(224,881)
At 1 April 2005	1	(487,242)	(487,241)
Profit for the year	–	17,641	17,641
At 1 April 2006	1	(469,601)	(469,600)
Profit for the period	–	82,284	82,284
31 August 2006	1	(387,317)	(387,316)

#### 16. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	31 March 2004 £	31 March 2005 £	31 March 2006 £	5 months ended 31 August 2006 £
Operating profit/(loss)	50,374	(213,226)	46,618	129,778
Depreciation	–	–	2,888	4,035
Increase in debtors	(54,106)	(21,852)	(397,082)	(153,091)
Increase in creditors	49,007	240,314	271,184	171,242
Net cash inflow/(outflow) from operating activities	45,275	5,236	(76,392)	151,964

(b) Analysis of net (debt)/funds

	At 1 April 2003 £	Cash flow £	At 31 March 2004 £
Bank overdraft	(69,349)	26,835	(42,514)
	At 1 April 2004 £	Cash flow £	At 31 March 2005 £
Bank overdraft	(42,514)	(6,419)	(48,933)
	At 1 April 2005 £	Cash flow £	At 31 March 2006 £
Bank overdraft	(48,933)	48,933	-
Cash at bank and in hand	-	142,426	142,426
	(48,933)	191,359	142,426
Debt falling due within one year	-	(124,949)	(124,949)
Debt falling due after one year	-	(161,871)	(161,871)
	(48,933)	(95,461)	(144,394)
	At 1 April 2006 £	Cash flow £	At 31 August 2006 £
Cash at bank and in hand	142,426	120,451	262,877
	142,426	120,451	262,877
Debt falling due within one year	(124,949)	(41,667)	(166,616)
Debt falling due after one year	(161,871)	51,594	(110,277)
	(144,394)	130,378	(14,016)

**17. OPERATING LEASE COMMITMENTS**

Annual commitments under non-cancellable operating leases are as follows:

	At 31 March 2004 £	Land and buildings		At 31 August 2006 £
	At 31 March 2005 £	At 31 March 2006 £	At 31 March 2006 £	At 31 August 2006 £
Operating leases which expire: In two to five years	-	-	27,000	27,000

## 18. TRANSACTIONS WITH DIRECTORS AND OTHER RELATED PARTIES

At 31 August 2006 (31 March 2004, 31 March 2005, 31 March 2006), the Directors had amounts owing in respect of unpaid salaries, pension contributions and other sundry amounts incurred in connection with their duties as Directors. As these amounts have not yet been repaid and are unavailable for draw down, they have been included within accruals and deferred income in note 12. Accordingly, these amounts are not included within the movement in net debt at note 17(b).

		At 31 March 2004 £	At 31 March 2005 £	At 31 March 2006 £	At 31 August 2006 £
M C Turrell	– loan to the Company	22,840	16,731	80,636	95,661
	– accrued interest	–	–	1,159	5,070
		<u>22,840</u>	<u>16,731</u>	<u>81,795</u>	<u>100,731</u>
	Maximum liability in the year/period	<u>22,840</u>	<u>22,840</u>	<u>81,795</u>	<u>100,731</u>
Y U Lindow	– loan to the Company	–	80,249	121,804	153,053
	– accrued interest	–	–	30,000	9,432
		<u>–</u>	<u>80,249</u>	<u>151,804</u>	<u>162,485</u>
	Maximum liability in the year/period	<u>–</u>	<u>80,249</u>	<u>151,804</u>	<u>166,654</u>
S K Taylor	– loan to the Company	–	–	40,000	34,682
	Maximum liability in the year/period	<u>–</u>	<u>–</u>	<u>40,000</u>	<u>34,682</u>
A K Wainwright	– pension contributions	–	28,510	38,351	41,268
	Maximum liability in the year/period	<u>–</u>	<u>28,510</u>	<u>38,351</u>	<u>41,268</u>

M C Turrell, Y U Lindow, A K Wainwright and S K Taylor are all related parties by virtue of their directorships. A Wainwright is a related party by virtue of being a connected person with A K Wainwright and had provided a loan to the Company as follows:

		At 31 March 2004 £	At 31 March 2005 £	At 31 March 2006 £	At 31 August 2006 £
A Wainwright	– loan	–	–	100,000	100,000
	– accrued interest	–	–	12,944	32,359
	(Related party)	<u>–</u>	<u>–</u>	<u>112,944</u>	<u>132,359</u>
	Maximum liability in year/period	<u>–</u>	<u>–</u>	<u>112,944</u>	<u>132,359</u>

The Group has paid £3,333 in the period to 31 August 2006 (31 March 2006: £7,222, 31 March 2005: £5,555 and 31 March 2004: £5,555) in respect of leasing commitments entered into by Y U Lindow and M C Turrell in their personal capacities. These commitments relate to a motor vehicle and offices for utilisation by the Group in carrying on its operating activities.

There were no other related party transactions in the years ended 31 March 2004, 31 March 2005 and 31 March 2006 or the period ended 31 August 2006.

**19. CAPITAL COMMITMENTS**

The Directors have confirmed that there were capital commitments at 31 August 2006 of £26,568, (31 March 2004: Nil, 31 March 2005: Nil, 31 March 2006: Nil).

**20. ULTIMATE CONTROLLING PARTY**

The Group is controlled by Mr M C Turrell.

**21. PENSIONS**

The Group operates a defined contribution pension scheme on behalf of its employees. The pension charges for the periods ended 31 March 2004, 31 March 2005, 31 March 2006 and 31 August 2006 are detailed in note 5. There were £41,268 in contributions outstanding at 31 August 2006 (31 March 2006: £38,351, 31 March 2005: £28,510, 31 March 2004: £nil).

**22. CONTINGENCIES**

The Directors have confirmed that there are no contingent liabilities which should be disclosed at 31 March 2004, 31 March 2005, 31 March 2006 or 31 August 2006.



## PART IV

### ADDITIONAL INFORMATION

#### 1. Responsibility for information in this document

1.1 The Directors, whose names and business addresses are set out in paragraph 1.2 of this Part IV, accept responsibility, individually and collectively, for the information contained in this document. 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.

1.2 The Directors and their respective positions are:

	<b>Commencement of period of office</b>	<b>Date of expiration of term of office</b>
Howard Cleveley Marshall ( <i>Non-executive Chairman</i> )	11 December 2006	Next AGM
Mark Clifford Turrell ( <i>Chief Executive Officer</i> )	1 March 2000	Next AGM
Shawn Karl Taylor ( <i>Chief Financial Officer</i> )	5 April 2006	AGM 2008
Andrew Karl Wainwright ( <i>Chief Technology Officer</i> )	2 January 2002	AGM 2009
Paul Gilmer Morland ( <i>Non-executive Director</i> )	11 December 2006	Next AGM
Phillip George Nutburn ( <i>Non-executive Director</i> )	11 December 2006	Next AGM

The business address of each of the Directors is 22 Melton Street, London NW1 2BW.

#### 2. The Company

2.1 The Company was incorporated and registered in England and Wales under the Act on 1 March 2000 under the name Imaginatik Limited as a private company with registration number 3936915. On 24 October 2006 the Company re-registered as a public limited company to become Imaginatik Plc.

2.2 The principal activity of the Company is that of the provision of information technology-based systems for innovation and idea management in medium and large-scale corporations and organisations.

The Company is the holding company of the following subsidiary companies, each of which is wholly-owned by the Company:

<b>Name and registered number</b>	<b>Registered office</b>	<b>Principal activity</b>
Imaginatik, Inc. (incorporated in the state of Delaware, United States of America, under number 4212716)	84 State Street Boston MA 02109	Provision of idea and innovation management services
Imaginatik (Goswell) Limited (incorporated in England and Wales under number 5770669)	22 Melton Street London NW1 2BW	Provision of idea and innovation management services

2.3 The principal legislation under which the Company operates and under which the Ordinary Shares have been created is the Act and the regulations made thereunder. The liability of the Company's members is limited.

2.4 The registered office of the Company is at 22 Melton Street, London NW1 2BW, telephone number +44 (0)207 383 5100.

2.5 The principal place of business of the Company is 6 Wessex Business Park, Colden Common, Southampton SO21 1WP, telephone number +44 (0)207 917 2975.

2.6 The Company has no administrative, management and supervisory bodies other than the Board and (with effect from Admission) the remuneration committee and the audit committee, both of which have no members other than Directors of the Company.

### 3. Memorandum and Articles of Association

- 3.1 The Memorandum of Association of the Company provides that its principal object is to carry on business as a general commercial company. Its objects are set out in full in clause 3 of the Memorandum of Association, which is one of the documents referred to in paragraph 15 below as being available for inspection.
- 3.2 The Articles of Association of the Company (“the Articles”) which were adopted on 20 October 2006 include provisions to the following effect (although the summary below is qualified in its entirety by reference to the full Articles which are available for inspection as further described in paragraph 15 below):

#### 3.2.1 Voting Rights

Subject to any terms as to voting under which any shares may be issued, or may for the time being be held, every member present in person shall have one vote on a show of hands and, on a poll, every member shall have one vote for every Ordinary Share of which he is the holder. The duly authorised representative of a corporate member may exercise the same powers on behalf of that corporation as it could exercise if it were an individual member. A member is not entitled to vote unless all calls due from him have been paid. A member is not entitled to attend or vote at meetings of the Company in respect of any shares held by him in relation to which he or any other person appearing to be interested in such shares has been duly served with a notice under section 212 of the Act and, having failed to supply the Company with the information which he knows to be, or having recklessly given information which is, false in any material particular, within the period specified in such notice (being not less than 14 days or 28 days, depending on the size of his shareholding, from the date of service of such notice) is served with a disenfranchisement notice. Such disenfranchisement notice will apply only for so long as the notice from the Company has not been complied with.

#### 3.2.2 Dividends

Subject to the Act, the Companies Act 1989 and every other statute for the time being in force concerning companies and affecting the Company (“the Statutes”), the Company may by ordinary resolution declare dividends to be paid to members of the Company according to their rights and interests in the profits available for distribution, but no dividend shall be declared in excess of the amount recommended by the Board. Subject to the Statutes, the Board may from time to time pay to the members of the Company such interim dividends as appear to the Board to be justified by the profits available for distribution and the position of the Company. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide (no such shares presently being in issue), all dividends shall be apportioned and paid pro rata according to the amounts paid or credited as paid up (other than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. Any dividend unclaimed after a period of 12 years from the date of declaration shall be forfeited and shall revert to the Company. The Board may, if authorised by an ordinary resolution, offer the holders of Ordinary Shares the right to elect to receive additional Ordinary Shares, credited as fully paid, instead of cash in respect of any dividend or any part of any dividend. The Board may deduct from any dividend payable to any member on or in respect of a share all sums of money (if any) then payable by that member to the Company on account of calls or otherwise in relation to shares in the Company.

#### 3.2.3 Distribution of Assets on a Winding Up

On a winding-up any surplus assets will be divided between the holders of the shares according to the respective number of shares held by them, subject to the rights of any shares which may be issued with special rights or privileges. The liquidator may, with the sanction of an extraordinary resolution of the Company and subject to the Insolvency Act 1986, divide amongst the members of the Company *in specie* the whole or any part of the assets of the Company, and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator, with the like sanction, shall determine but no member shall be compelled to accept any assets on which there is a liability.

### 3.2.4 Transfer of Shares and Pre-emption Rights

3.2.4.1 The Ordinary Shares are in registered form. Save in respect of shares which are participating securities for the purposes of the CREST Regulations, the title to which may be transferred in the manner provided for and in the rules and procedure of the operator of the relevant system and in accordance with and subject to the CREST Regulations, any member may transfer, in the usual form, or in such other form as the Board may approve, all or any of his shares by an instrument of transfer. The instrument of transfer shall be executed by or on behalf of the transferor and (in the case of a partly paid share) by or on behalf of the transferee. The transferor shall be deemed to remain the holder until the name of the transferee is entered in the register. There is no restriction on the registration of a transfer of a fully paid share provided the transfer (i) is duly stamped and lodged at the registered office, accompanied by the relevant share certificate and such other evidence of the right of the transferor to make the transfer as the Board may reasonably require, (ii) is in respect of only one class of share and (iii) is in favour of not more than four transferees. If any of the above conditions is not complied with, the Board has a discretion whether or not to register the transfer in question. The Board may, in its absolute discretion and without assigning any reason therefor, refuse to register any transfer of shares, all or any of which are not fully paid or on which the Company has a lien, provided that such discretion may not be executed in such a way as to prevent dealings in the shares from taking place on an open and proper basis. The Directors may also decline to register a transfer of shares representing 0.25 per cent. or more in nominal value of the issued shares of their class after there has been a failure to comply with any notice under section 212 of the Act requiring the disclosure of information relating to interests in the shares concerned unless the shareholder has not, and proves that no other person has, failed to supply the information.

3.2.4.2 There are no rights of pre-emption under the Articles in respect of transfers of issued Ordinary Shares. In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment to existing shareholders on a pro rata basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

### 3.2.5 Variation of Rights

Subject to the Statutes, all or any of the rights attached to any class of shares may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not the Company is being wound up, either with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders. The quorum at any such general meeting is two persons holding or representing by proxy at least one third in nominal value of the issued shares of that class and at an adjourned meeting the quorum is one holder present in person or by proxy, whatever the amount of his shareholding. Any holder of shares of the class in question present in person or by proxy may demand a poll. Every holder of shares of the class shall be entitled on a poll to one vote for every share of the class held by him. Except as mentioned above, such rights may not be varied. The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the Articles or the conditions of issue of such shares, be deemed to be varied by the creation or issue of new shares ranking *pari passu* therewith or subsequent thereto.

### 3.2.6 Share Capital and Changes in Capital

3.2.6.1 Subject to the Statutes, the Company may issue redeemable shares. Without prejudice to any special rights previously conferred on the holders of any existing shares, any share may be issued with such rights or such restrictions as the Company may from time to time determine by ordinary resolution. Subject to the provisions of the Articles and the Statutes, the power of the Company to allot and issue shares shall be exercised by the Board at such time and for such consideration and upon such terms and conditions as the Board may determine.

3.2.6.2 The Company may by ordinary resolution increase its share capital, consolidate its share capital into shares of a larger amount and (subject to the provisions of the Statutes) sub-divide its shares or any of them into shares of a smaller amount than is fixed by its Memorandum of Association (and so that the resolution may determine that, as between the holders of shares resulting from the sub-division, any of the shares may have any preference or advantage or be subject to any restriction as compared with the others), cancel any shares which, at the date of the passing of the resolution, have not been subscribed for or agreed to be subscribed for, by any person and diminish the amount of its authorised share capital by the amount of the shares to be cancelled.

3.2.6.3 Subject to the Statutes, the Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any way. Subject to the Statutes, the Company may purchase all or any of its own shares of any class (including any redeemable shares) and such shares do not have to be purchased rateably.

### 3.2.7 Disclosure of Interest in Shares

Pursuant to Part VI of the Act and the Articles, the Company is empowered by notice in writing to require any person whom the Company knows, or has reasonable cause to believe to be, or at any time during the three years immediately preceding the date on which the notice issued, interested in shares which comprised the share capital of the Company, within a reasonable time to disclose to the Company particulars of any interest, rights, agreements or arrangements affecting any of the shares in the Company held by that person or in which such person is interested.

Where, in respect of any shares of the Company, any holder or any other person appearing to be interested in such shares held by a member has been issued with a notice pursuant to section 212 of the Act (a “statutory notice”) and has failed in relation to any shares (the “default shares”) to comply with the statutory notice and to give the Company the information required by such notice within the prescribed period from the date of the statutory notice, then the Board may serve on the holder of such default shares a notice (a “disenfranchisement notice”) whereupon the following sanctions shall apply:-

- (a) such holder shall not with effect from the service of the disenfranchisement notice be entitled in respect of the default shares to be present or to vote (either in person or by representative or by proxy) either at any general meeting or at any separate general 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
- (b) where such shares represent not less than 0.25 per cent. in nominal value of the issued shares of their class:-
  - (i) any dividend or other moneys payable in respect of the default shares shall be withheld by the Company which shall not be under any obligation to pay interest on it and the holder shall not be entitled under the Articles to elect to receive shares instead of that dividend; and
  - (ii) no transfer, other than an excepted transfer, of any shares held by the holder shall be registered unless:-
    - (1) the holder is not himself in default as regards supplying the information required; and
    - (2) the holder proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer.

### 3.2.8 Share Warrants

3.2.8.1 The Company may, with respect to any fully paid shares, issue a share warrant stating that the bearer of the warrant is entitled to the shares specified in it and may provide (by coupons or otherwise) for the payment of future dividends or other monies on the shares included in a share warrant.

3.2.8.2 The power to issue share warrants may be exercised by the Board, which may determine and vary the conditions on which share warrants shall be issued. Subject to such conditions and to the Articles, the bearer of a share warrant shall be deemed to be a member for all purposes. The bearer of a share warrant shall be subject to the conditions for the time being in force applicable thereto, whether made before or after the issue of such share warrant.

### 3.2.9 Directors

3.2.9.1 Save as mentioned below, a Director shall not vote at a meeting of the Board or of a committee of the Board on any resolution concerning a matter in which he has, directly or indirectly, any material interest (otherwise than by virtue of his interests in shares or debentures or other securities of, or in or otherwise through, the Company) or a duty which conflicts or may conflict with the interests of the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

3.2.9.2 A Director shall (in the absence of material interests other than those indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

- (i) the giving of any guarantee, security or indemnity to him or any other person in respect of money lent to, or an obligation incurred by him or by any other person at the request of or for the benefit of, the Company or any of its subsidiaries;
- (ii) the giving of any guarantee, security or indemnity to a third party in respect of an obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of shares, debentures or other securities by the Company or any of its subsidiaries for subscription, purchase or exchange;
- (iv) any proposal concerning any other company in which he is interested, directly or indirectly, and whether as an officer or shareholder or otherwise howsoever, provided that he is not the holder of or beneficially interested in one per cent. or more of either any class of the equity share capital of such company (or of any corporate third party through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed to be a material interest in all circumstances);
- (v) any arrangement for the benefit of the employees of the Company or any of its subsidiaries under which the Director benefits in a similar manner to the employees and which does not accord to any Director any privilege or benefit not generally awarded to the employees to which such arrangement relates; and
- (vi) any proposal concerning any insurance which the Company is empowered to purchase and/or maintain for the benefit of any of its Directors or for persons who include Directors of the Company provided that for this purpose "insurance" means only insurance against liability incurred by a Director in respect of any act or omission by him in the execution of the duties of his office or otherwise in relation thereto or any other insurance which the Company is empowered to purchase and/or maintain for or for the benefit of any groups of persons consisting of or including Directors.

3.2.9.3 The Directors shall be paid such remuneration (by way of fee) for their services as may be determined by the Board. The Directors shall also be entitled to be repaid by the Company all travel, hotel and other expenses of travelling to and from Board meetings, committee meetings, general and other meetings or otherwise reasonably incurred



while engaged on the business of the Company or in the discharge of his duties as a Director. Any Director who by request of the Board performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration by way of salary, commission, percentage of profits or otherwise as the Board may determine.

3.2.9.4 The Board may exercise all the powers of the Company to provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, to or for the benefit of past directors who held executive office or employment with the Company or any of its subsidiaries or a predecessor in business of any of them or to or for the benefit of persons who are or were related to or dependants of any such Directors.

3.2.9.5 Directors and officers of the Company are entitled to be indemnified against all losses and liabilities which they may sustain in the execution of the duties of their office and they shall not be liable for any loss, damage or misfortune which may be incurred by the Company in or from the execution of those duties.

3.2.9.6 At each annual general meeting as nearly as possible (but not exceeding) one third of those Directors who are subject to retirement by rotation shall retire but shall be eligible for re-election. A Director holding executive office in the Company shall not, while holding that office, be subject to retirement by rotation or be taken into account in deciding the number of Directors to retire by rotation on any particular occasion. The Directors to retire will be those who have been longest in office or, in the case of those who became or were re-elected Directors on the same day, will, unless they agree otherwise, be determined by lot. Any Director appointed by the Board holds office only until the next annual general meeting, when he is eligible for re-election, but is not taken into account in determining the number of Directors to retire by rotation at that meeting.

3.2.9.7 There is no age limit for Directors and section 293 of the Act does not apply to the Company.

3.2.9.8 Unless and until otherwise determined by ordinary resolution of the Company, the Directors (other than alternate Directors) shall not be less than two and there shall be no maximum number of Directors.

#### 3.2.10 Borrowing Powers

The Board may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, and, subject to the Statutes, to issue debentures and other securities, whether outright or as collateral security, for any debt, liability or obligation of the Company or of any third party.

#### 3.2.11 CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. This settlement procedure is reflected in the Articles.

#### 3.2.12 General meetings

An annual general meeting is to be held once in every calendar year within a period of 15 months following the preceding annual general meeting. All general meetings other than annual general meetings are extraordinary general meetings. An annual general meeting and an extraordinary general meeting where such general meeting is called for the passing of a special resolution shall be called by at least 21 clear days' notice in writing. All other extraordinary general meetings shall be called by at least 14 clear days' notice in writing. Notice must be sent individually to each shareholder who is entitled to receive notice of and to participate in the meeting.

3.2.13 There are no provisions of the Articles that would have the effect of delaying, deferring or preventing a change of control of the Company.

#### 4. Share Capital

4.1 The Company was incorporated with an authorised share capital of £1,000 represented by 1,000 ordinary shares of £1 each, of which one Ordinary Share was issued, nil paid, to the subscriber to the memorandum of association.

4.2 The following alterations in the issued share capital of the Company have taken place since its incorporation:

On 20 October 2006, shareholder resolutions were passed:

- (i) to increase the share capital of the Company from £1,000 to £50,000 by the creation of 49,000 ordinary shares of £1 each;
- (ii) to increase the share capital of the Company from £50,000 to £312,500 by the creation of an additional 262,500 ordinary shares of £1 each; and
- (ii) to subdivide the issued and unissued ordinary shares of £1 each into 500,000,000 ordinary shares of £0.000625 each.

4.3 On 20 October 2006, 49,999 ordinary shares of £1 each were subscribed at par by Mark Turrell by way of the capitalisation of certain amounts due to Mr Turrell by the Company, pursuant to the agreement whose terms are summarised in paragraph 8.1.6.

4.4 The authorised and issued share capital of the Company (i) as at the date of this document and (ii) on Admission will be:

	<b>Authorised (Number)</b>	<b>Authorised (Amount £)</b>	<b>Issued and fully paid (Number)</b>	<b>Issued and fully paid (Amount £)</b>
(i)	500,000,000	312,500	80,000,000	50,000
(ii)	500,000,000	312,500	116,601,226	72,876

4.5 Application will be made for the Ordinary Shares to be admitted to AIM and to no other stock exchange or trading facility.

4.6 By a shareholders' resolution dated 11 December 2006 the Directors were generally and unconditionally authorised, conditional on Admission, for the purposes of section 80 of the Act (i) to allot the Ordinary Shares to be issued pursuant to the Placing and (ii) to allot relevant securities (otherwise than in connection with the Placing) up to a maximum of an aggregate nominal amount of £37,104 such authority to expire at the conclusion of the annual general meeting of the Company following Admission unless renewed or revoked before that date. The Directors were also empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply up for an allotment of equity securities (i) pursuant to the Placing and (ii) up to a maximum of an aggregate nominal amount of £20,999, such authority to expire at the conclusion of the annual general meeting of the Company following Admission unless revoked or renewed prior to that date. This resolution alters the rights of shareholders arising under section 89 of the Act for certain issues of Ordinary Shares to be made to them on a pre-emptive basis.

4.7 The Company has granted W.H. Ireland, conditionally on Admission, options to subscribe for 1,166,012 Ordinary Shares representing 1 per cent. of the issued Ordinary Share capital of the Company on Admission (the terms of which are summarised in paragraph 8.1.4 below).

4.8 Save as disclosed above in this paragraph 4 and paragraphs 7 and 8.1.4 of this Part IV, no capital of the Company is proposed to be issued or is under option or is agreed to be put under option.

4.9 An aggregate of approximately £193,000 has been made available to the Company from certain employees of the Company and Directors and from others by way of unpaid salaries, pension contributions and other sundry amounts and loans to the Company. The aggregate accrued interest on these loan amounts as at the date of this document is £43,610, and the aggregate of the outstanding amounts plus the accrued interest thereon as at the date of this document has been agreed to be repaid by the Company by way of the issue of Ordinary Shares at the Placing Price at Admission, save in the case of the bank lender and Dr Lindow; in the case of the bank lender, its indebtedness from the Company will continue and in the case of Dr Lindow will be repaid in part. The aggregate number of Ordinary Shares which will fall to be issued under these arrangements is 3,154,797, representing 2.71 per cent. of the Enlarged Share Capital.

4.10 The Company has agreed with certain of its employees and Directors, in consideration for their past services to the Company and in the case of Mr Taylor only, in relation to his past services to the Company and his services to the Company in relation to Admission, to allot and issue Ordinary Shares to them in each case at the Placing Price and conditionally on Admission. The aggregate number of Ordinary Shares which may fall to be issued pursuant to these arrangements is 4,719,750, of which 1,734,147 Ordinary Shares shall be issued to Dr Lindow, 1,023,147 Ordinary Shares shall be issued to Mr Taylor, 1,381,463 Ordinary Shares shall be issued to Mr Wainwright and 580,993 Ordinary Shares shall be issued to other employees of the Company. The aggregate number of Ordinary Shares which will fall to be issued under these arrangements is 4,719,750, representing 4.05 per cent. of the Enlarged Share Capital of the Company on Admission.

## 5. Directors' Interests

### 5.1 Interests in Shares

References in this paragraph 5 to relevant securities means Ordinary Shares.

As at the date of this document, the interests (all of which are beneficial unless otherwise stated) of the Directors in the issued share capital of the Company, which have been notified to the Company pursuant to sections 324 or 328 of the Act or which are required to be entered in the register maintained pursuant to section 325 of the Act or which are interests of a connected person of a Director (within the meaning of section 346 of the Act) which would, if the connected person were a Director, be required to be disclosed as aforesaid and the existence of which is known to, or could with reasonable diligence be ascertained by, the Directors are set out below and in paragraph 5.2 below:

Director	Number of Ordinary Shares at the date of this document	% of issued share capital at the date of this document	Number of Ordinary Shares on Admission	% of Enlarged Share Capital	Number of Ordinary Shares under option on Admission	% of Enlarged Share Capital represented by shares under option
Howard Cleveley Marshall	–	–	733,334	0.63	–	–
Mark Clifford Turrell*	80,000,000	100	81,734,147	70.1	1,250,000	1.07
Shawn Karl Taylor	–	–	1,023,147	0.88	2,500,000	2.14
Andrew Karl Wainwright	–	–	1,381,463	1.18	1,250,000	1.07
Paul Gilmer Morland	–	–	666,668	0.57	–	–
Phillip George Nutburn	–	–	333,333	0.29	–	–

\* The above shareholding includes the interests of Dr Yvonne Lindow, Mr Turrell's wife in 1,734,147 Ordinary Shares and 1,250,000 options.

NB: The interests in Ordinary Shares set out in the first column above do not include interests in Ordinary Shares which have been agreed to be subscribed pursuant to the Placing.

5.2 As at the date of this document options have been granted to Directors under the Share Option Scheme (conditionally upon Admission) as follows:

Director	No. of Ordinary Shares	Exercise Price per Ordinary Share	Exercise Period
Shawn Karl Taylor	2,500,000	7.5 pence	50 per cent. of option shares between 2 and 10 years from Admission and the balance between 3 and 10 years at Admission
Andrew Karl Wainwright	1,250,000	7.5 pence	50 per cent. of option shares between 2 and 10 years from Admission and the balance between 3 and 10 years at Admission



- 5.3 Save as disclosed in paragraph 5.2 above no Director has any option over or warrant to subscribe for relevant securities.
- 5.4 Save as disclosed in paragraphs 5.1 and 5.2 of this Part IV, none of the Directors nor any person connected with them (within the meaning of section 346 of the Act) has any interest in any relevant securities or has a related financial product (as defined in the AIM Rules) referenced to Ordinary Shares.
- 5.5 There are no outstanding loans granted by the Company to any of the Directors nor has any guarantee been provided by the Company for the benefit of any Director.
- 5.6 Additional information on the Directors

The names of all companies and partnerships outside of the Group of which the Directors have, at any time in the five years prior to the date of this document, been a director or partner, as appropriate, each of which is currently held unless stated otherwise, are as follows:

<b>Name</b>	<b>Current Directorships</b>	<b>Past Directorships</b>
Howard Cleveley Marshall	Heart of England Tourist Board Hill & Smith Holdings Plc The Orchestra of the Swan	Bullough Heating Limited Bullough Limited Consolidated Site Services Limited Hubbard-Reader Group Limited The National Academy of Writing Workspace Office Solutions Ltd Young Cygnets Young Cygnets (Trading) Limited
Mark Clifford Turrell	Ideadollar, Inc.	Ideadollar.com Limited
Shawn Karl Taylor	None	Cobalt Media Capital Limited Contentfilm plc Contentfilm Beep Limited Contentfilm Heartbreakers Limited Contentfilm International Limited Contentfilm Jellabies Limited Contentfilm Muggers Limited Contentfilm Music Limited Contentfilm Pictures Limited Contentfilm Productions Limited Contentfilm Rainbow Limited Contentfilm The Sea Change Limited Contentfilm UK Distribution Limited Contentfilm Wheels Limited Tapencove Limited The Feature Film Company Limited
Andrew Karl Wainwright	Ideadollar, Inc.	Ideadollar.com Limited
Paul Gilmer Morland	None	Agilisys Holding Ltd Agilisys Professional Services Ltd
Phillip George Nutburn	Jacob's Island (Providence Square A, B & C) Limited	None

Save as set out above, none of the Directors has held or occupied any other directorships or has been a partner in a partnership over the previous five years.

- 5.7 No Director:
- 5.7.1 has any unspent convictions in relation to indictable offences; or
- 5.7.2 has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such director; or

- 5.7.3 has been a director of any company which, while he was a director or within 12 months after he ceased to be a director, had a receiver appointed or went into compulsory liquidation, creditors' voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or
- 5.7.4 has been a partner of any partnership which, while he was a partner or within 12 months after he ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or
- 5.7.5 has had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or
- 5.7.6 has 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.

## 5.8 Directors' Terms of Appointment

### *Howard Cleveley Marshall, Non-executive Chairman*

Mr Marshall has entered into an appointment letter with the Company dated 11 December 2006 conditional on Admission which is terminable on not less than three months' notice by either party (save in certain circumstances). Mr Marshall shall receive annual remuneration of £30,000 payable in advance in respect of the first 12 months of his appointment. Mr Marshall shall be entitled to receive new Ordinary Shares in respect of each subsequent six month period to the value of £15,000 (pro-rated to the extent required) which shall be issued: (i) at the average of the five day mid market closing price of an Ordinary Share as derived from London Stock Exchange's Daily Official List for the last five dealing days of such period (ii) within 20 business days of the expiry of the relevant period.

### *Mark Clifford Turrell, Chief Executive Officer*

Mr Turrell entered into a service agreement with the Company on 11 December 2006 conditional on Admission. The terms of the agreement include amongst others the following: (i) salary of £100,000 per annum, (ii) terminable on not less than 12 months' notice by either party (save in certain circumstances), (iii) 25 days' holiday per annum and (iv) up to 26 weeks' sick pay in any 12 month period at full rate.

### *Shawn Karl Taylor, Chief Financial Officer*

Mr Taylor entered into a service agreement with the Company on 11 December 2006 conditional on Admission. The terms of the agreement include amongst others the following: (i) salary of £120,000 per annum, (ii) terminable on not less than 12 months' notice by either party (save in certain circumstances), (iii) 25 days' holiday per annum and (iv) up to 26 weeks' sick pay in any 12 month period at full rate.

### *Andrew Karl Wainwright, Chief Technology Officer*

Mr Wainwright entered into a service agreement with the Company on 11 December 2006 conditional on Admission. The terms of the agreement include amongst others the following: (i) salary of £86,820 per annum and an annual pension contribution from the Company of £7,000, (ii) terminable on not less than six months' notice by either party (save in certain circumstances), (iii) 25 days' holiday per annum and (iv) up to 26 weeks' sick pay in any 12 month period at full rate.

In addition each of Mr Taylor's and Mr Wainwright's service agreements provide that, conditionally on Admission, they shall be issued with 1,023,147 and 1,381,463 Ordinary Shares respectively at the Placing Price as referred to in paragraph 4.10.

### *Paul Gilmer Morland, Non-executive Director*

Mr Morland and Arbuthnot Securities Limited have entered into an appointment letter with the Company dated 11 December 2006 conditional on Admission which is terminable on not less than three months' notice to the relevant party (save in certain circumstances). Pursuant to this agreement, Arbuthnot Securities Limited and Mr Morland are entitled to receive £10,000 and £15,000 per annum respectively, payable in respect of Mr Morland in advance in respect of the first 12 months of his appointment. Arbuthnot Securities Limited is to be paid monthly in arrears. Mr Morland shall be entitled to receive new Ordinary Shares in respect of each subsequent six month period to the value of £7,500 (pro-rated to the

extent required) which shall be issued: (i) at the average of the five day mid market closing price of an Ordinary Share as derived from London Stock Exchange's Daily Official List for the last five dealing days of such period (ii) within 20 business days of the expiry of the relevant period.

*Phillip George Nutburn, Non-executive Director*

Mr Nutburn has entered into an appointment letter with the Company dated 11 December 2006 conditional on Admission which is terminable on not less than three months' notice to either party (save in certain circumstances). Pursuant to this agreement, Mr Nutburn is entitled to receive £25,000 per annum, payable in advance in respect of the first 12 months of his appointment. Mr Nutburn shall be entitled to receive new Ordinary Shares in respect of each subsequent six month period to the value of £12,500 (pro-rated to the extent required) which shall be issued: (i) at the average of the five day mid market closing price of an Ordinary Share as derived from London Stock Exchange's Daily Official List for the last five dealing days of such period (ii) within 20 business days of the expiry of the relevant period.

There are no service agreements or letters of appointment in existence between any of the Directors and the Company which cannot be determined by the Company without payment of compensation (other than statutory compensation) within one year and no benefits become payable in any case upon termination of any of the service agreements or letters of appointment.

Save as set out in this paragraph 5, none of the Directors has an existing or proposed service agreement or letter of appointment with the Company, nor has there been a change in the last six months.

The estimated aggregate remuneration of the Directors including pension contributions and benefits in kind payable by any member of the Company under the arrangements in force at the date of this document for the financial period ending 31 March 2007 excluding discretionary bonus payments is £531,811.

5.9 Transactions with related parties

Save as set out and described in note 18 of Part III, neither Imaginatik nor any member of the Group has entered into any related party transactions.

**6. Substantial Shareholders**

6.1 As at the date of this document, in addition to the interests of the Directors set out in paragraph 5.1 above, the Company had been notified of, or was otherwise aware of the interests of the following person(s) who were, directly or indirectly, interested in 3 per cent. or more of the existing share capital of the Company as at the date of this document and as they will be following Admission.

<b>Name</b>	<b>Ordinary Shares at the date of this document</b>	<b>% of the share capital at the date of this document</b>	<b>Ordinary Shares at the date of Admission</b>	<b>% of the share capital on Admission</b>
Artemis Investment Management Limited	–	–	8,000,000	6.86
Octopus Investments	–	–	4,800,000	4.12
Wills & Co Stockbrokers Limited	–	–	4,000,000	3.43
Williams de Broë Limited	–	–	4,000,000	3.43

6.2 Each of the Ordinary Shares referred to in paragraphs 5.1 and 6.1 above ranks *pari passu* and none of the Shareholders has rights in relation to Ordinary Shares which differ from those held by any other Shareholder.

6.3 Save as disclosed in paragraphs 5.1 and 6.1 above, the Company is not aware of any persons who as at the date of this document, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

6.4 None of the Directors nor any persons named in paragraph 6.1 above has voting rights which are different to any other holder of Ordinary Shares.

## 7. Share Option Schemes

7.1 The Company adopted the Share Option Scheme on 11 December 2006.

7.1.1 The Company has introduced the Share Option Scheme pursuant to the Income Tax (Earnings and Pension) Act 2003 (“ITEPA”) in order to allow certain employees to share in the success of the Group and to promote motivation and retention.

The principal terms of the Share Option Scheme are set out in the summary below.

### *Grant of options*

Options may be granted to eligible employees at the discretion of the Board.

If an option meets the provision of Schedule 5 of ITEPA relating Enterprise Management Incentives (“EMI”) it shall be an EMI Option. If it fails to do so it shall be an Unapproved Option.

Options may be granted to an eligible employee:

- (a) within the period of 42 days immediately after the date of approval of the Share Option Scheme; or
- (b) within the period of 42 days immediately after the preliminary announcement of the Company’s final, interim or quarterly results in respect of any financial period; or
- (c) at any other time but only if, in the opinion of the Remuneration Committee, the circumstances are exceptional;

provided that if the Remuneration Committee is prevented by statute, order, regulation or directive from granting EMI options within this period then the committee may grant them within 42 days after the restriction is lifted.

### *Eligibility*

Any employee or executive director who is a bona fide employee of a group company and in relation to EMI options whose committed time to group companies amounts to not less than 25 hours per week or, if less, 75 per cent. of his working time, shall be eligible to participate in the Share Option Scheme provided they do not hold a material interest in any group company.

### *Option Conditions*

An option may be granted subject to a performance based objective or target as the Remuneration Committee may in its discretion impose.

### *Exercise Price*

The price per share to be paid on the exercise of the option shall be no less than the closing middle market quotation for a share on AIM on the business day immediately preceding the date of grant of the option (or, if the Remuneration Committee so determines, the average of the closing middle market quotations for the three business days immediately preceding the date of grant of the option) save where an option is granted at or immediately following admission of the Company’s shares to a stock market when the option price shall be the admission price.

### *Limit of participation*

A participant may not be granted options in any 12 month period under the Share Option Scheme over shares with a market value in excess of 2.5 times his basic salary as at the date of grant other than in exceptional circumstances as determined by the Remuneration Committee. The total number of unissued shares in respect of which options under the Share Option Scheme may be granted under the Share Option Scheme in any year shall not, when aggregated with the number of shares issued pursuant to options granted or capable of issue pursuant to options under the Share Option Scheme or any other Share Option incentive scheme during the period of 10 years from the date of approval exceed 12.5 per cent. of the Share Capital of the Company in issue from time to time.

### *Exercise of options*

Options may be exercised as to 50 per cent. from the second anniversary of the date of grant and the balance from the third anniversary from the date of grant and at any time thereafter up to ten years from the date of grant. Options may be exercised earlier on the occurrence of certain specified events including liquidation, takeover, scheme of reconstruction or compulsory acquisition. See also the section on employees leaving the Company below.

In certain circumstances, an option holder may be permitted to exchange his option under the relevant plan for options over the shares of the acquiring company, subject to the agreement of the acquiring company.

### *Employees leaving the Company*

Subject to the following, if the option holder ceases to be an employee of any and all group companies then generally the option will lapse immediately upon the option holder so ceasing. If the option holder ceases to be employed or hold office by reason of injury, disability, retirement or redundancy, the option shall lapse on the expiry of six months following such event. If the option holder ceases to be employed or hold office by reason of death, the option will be exercisable by his personal representatives for a period of up to six months after his death (but only to the extent that it would otherwise have been exercisable) at which time the option shall lapse.

### *Variation of share capital*

If there is a variation of share capital of the Company the Remuneration Committee may adjust the number of shares under option and the exercise price, to reflect such variation.

### *Alteration of Share Option Scheme*

The Remuneration Committee may by resolution alter the terms of the Share Option Plans from time to time provided that no such alteration or addition shall adversely affect the option holders without the consent of option holders.

- 7.1.2 The Company has also adopted on 11 December 2006 the Stock Option Plan for its US resident employees who are expected to be employees of the Company or a subsidiary of the Company incorporated under the laws of the State of Delaware, USA. The Stock Option Plan became effective upon its adoption by the Directors and the Company.

The Company has introduced the Stock Option Plan in order to allow certain US resident employees to share in the success of the Group and promote motivation and retention.

The principal terms of the Stock Option Plan are summarised below.

### *Grant of Options*

Options may be granted to eligible employees at the discretion of the Board or a committee designated by the Board to administer the Stock Option Plan (the "Committee"). Options granted under the Stock Option Plan may be incentive stock options ("ISOs") within the meaning of Section 422 of the US Internal Revenue Code of 1986, as amended, or non-qualified stock options.

### *Eligibility*

Any employee, officer or director providing services to the Company or its U.S.-based subsidiary determined to be eligible for an option award by the Committee is an eligible employee.

### *Option Condition*

An option may be granted subject to a performance based objective or target as the Committee may in its discretion impose.

### *Exercise Price*

The exercise price for any option granted under the Stock Option Plan will be determined by the Committee, but in no event will the exercise price be less than the fair market value of shares of stock of the Company on the date of grant. For this purpose, the fair market value of the shares on a given date is no less than the closing middle market quotation for a share on

AIM on the business day immediately preceding the date of grant (or, if the Remuneration Committee so determines, the average of the closing middle market quotation for the three business days immediately preceding the date of grant).

#### *Limitation on Participation*

An eligible employee may not be granted an option in any 12-month period where the total fair market value of the option on the date of grant exceeds 2.5 times the employee's annual salary (excluding discretionary pay). In addition, the Committee will not grant ISOs in which the fair market value of the underlying shares with respect to which the options are exercisable exceeds \$100,000. The total aggregate number of shares that may be issued under the Stock Option Plan in any year when aggregated with the number of shares issued pursuant to options granted, or capable of issue pursuant to options granted under the Stock Option Plans and any other share incentive plan during the 10 years commencing on the date of approval may not exceed 12.5 per cent. of the share capital of the Company issued and outstanding at any given time and the total number of shares available for incentive stock options and issues of shares under the Stock Option Plan may not exceed 7,570,000.

#### *Exercise of Options*

An option shall vest as to 50 per cent. on the second anniversary of the date of grant and the balance remaining on the third anniversary of the date of grant.

An option is exercisable from the date of vesting until the earlier of the date of lapse of such option or on the date of termination of the option holder's status as an eligible employee, subject to the exceptions set forth below. An option will automatically lapse on the tenth anniversary of the date of grant, or upon the occurrence of certain events, such as a voluntary or involuntary dissolution of the Company or bankruptcy of the option holder.

#### *Employees Leaving the Company*

An option will automatically terminate if the option holder ceases to be an eligible employee of the Company or its US-based subsidiary, unless the termination of the option holder's status as an eligible employee is caused by the death, disability, retirement or redundancy of the option holder, or the disposition of a segment of the business in which the option holder was employed, in which case the option holder has up to six months to exercise the option (three months in the case of an ISO).

#### *Variation of Share Capital*

In the event that certain corporate events occur that cause a variation in the share capital of the Company, the Committee shall adjust the number of shares available for granting options, the number of shares subject to outstanding awards, or the exercise price of an option to take into account such variation.

#### *Alteration of Stock Option Plan*

The Board has the discretion to amend, alter or discontinue the Stock Option Plan at any time, subject to approval of the stockholders of the Company in certain instances.

- 7.2 In addition to the options described in paragraphs 5.1 and 8.1.4, the Company intends to issue options to certain employees of the Group to subscribe in aggregate for 5,525,000 Ordinary Shares at the Placing Price.



## 8. Material Contracts

8.1 The following contracts, not being contracts entered into in the ordinary course of business, have been or will have been on Admission entered into by members of the Group and which are or may be material:

8.1.1 On 26 July 2006, Imaginatik entered into an agreement with W.H. Ireland under which W.H. Ireland agreed to act as Imaginatik's financial adviser and nominated adviser and broker and to advise and assist Imaginatik in respect of the admission of the Ordinary Shares and the Placing Shares to AIM and on an ongoing basis for an initial period of twelve months and thereafter until terminated by six months' notice of either party. The agreement contains an indemnity given by Imaginatik to W.H. Ireland. As consideration, W.H. Ireland is to be paid the corporate finance fee referred to in the Placing Agreement, summarised in paragraph 8.1.2 below. In addition, in respect of its nominated adviser and broker services, W.H. Ireland is to receive a fee of £25,000 per annum.

8.1.2 On 11 December 2006 the Company and the Directors entered into a placing agreement with W.H. Ireland in relation to the Placing and Admission. Under this agreement, W.H. Ireland has been appointed to provide assistance to the Company in connection with the Placing and Admission. W.H. Ireland's obligations under the agreement are conditional, *inter alia*, on Admission occurring by 8.00 am on 15 December 2006 or such later time and date as each of W.H. Ireland and the Company may agree. The agreement provides for the Company to pay all the fees and expenses connected with Admission including W.H. Ireland's fees and expenses. W.H. Ireland is to be paid a corporate finance fee of £125,000 conditional on Admission plus a commission of £97,025. The agreement contains, *inter alia*, indemnities and warranties from the Company and the executive Directors and warranties from each of the non-executive Directors in favour of W.H. Ireland in relation to this document and the Group together with provisions which enable W.H. Ireland to terminate the agreement in certain circumstances prior to Admission, principally if there is a material breach of the agreement or any of the warranties given under it or if a *force majeure* event arises.

8.1.3 On 11 December 2006 each of W.H. Ireland, the Company, the Directors and certain other shareholders entered into an orderly market deed pursuant to which the Directors and certain other shareholders undertook to the Company and to W.H. Ireland that they will not save in certain specified circumstances, within a year from the date of Admission, dispose of the legal or beneficial ownership of any interest in Ordinary Shares, and for a period of 12 months thereafter not dispose of any interest in Ordinary Shares (save in certain circumstances) at less than the Placing Price or at a price lower than a price at which they had previously sold shares in the previous three months, without the agreement of W.H. Ireland (or such other broker as may be appointed by the Company from time to time).

The certain specified circumstances include:

- (a) any disposal pursuant to acceptance of a general, partial or tender offer made by an offeror (the "Offeror") to Shareholders for the whole or part of the issued share capital of the Company (other than shares already held by the Offeror or persons acting in concert with the Offeror);
- (b) the execution of an irrevocable commitment to accept a general, partial or tender offer made to all shareholders of the Company for the whole or part of the issued capital of the Company (other than any shares already held by the Offeror or persons acting in concert with the Offeror);
- (c) a sale to an offeror or potential offeror who has been named in an announcement made pursuant to the City Code on Takeovers and Mergers;
- (d) any disposal pursuant to an intervening court order;
- (e) the transfer to a trust for the benefit of the shareholder and/or any family interests of the shareholder; and
- (f) in the case of Mr Turrell only, the grant by him of security interests over up to 20,000,000 Ordinary Shares provided that the lender has entered into lock-in covenants on similar terms to those entered into by Mr Turrell.

- 8.1.4 On 11 December 2006 the Company entered into an option agreement with W.H. Ireland pursuant to which, conditional upon the Placing Agreement becoming unconditional, the Company granted options to subscribe for 1,166,012 Ordinary Shares in the Company representing 1 per cent. of the Company's Ordinary Share capital at the date of Admission. These options are exercisable at any time from the grant for a period of three years from the date of Admission at the Placing Price (subject to adjustment if certain amendments are made to the Company's share capital).
- 8.1.5 On 11 December 2006 the Company entered into a controlling shareholder agreement with Mark Turrell pursuant to which Mr Turrell, as the controlling shareholder, has, conditionally on Admission, given certain undertakings to the Company. Under this agreement, Mr Turrell has undertaken to the Company to exercise all voting rights and powers of control available to him in relation to the Company in order that all transactions, agreements or arrangements entered into between the Company and Mr Turrell will be made at arm's length and on a normal commercial basis, that he will not procure or permit any material amendments to be made to the Company's articles of association which would be contrary to the Company's ability to carry on its business independently of him, to act in the best interests of the shareholders of the Company as a whole and such that the provisions of this agreement will be observed. Mr Turrell has also undertaken to the Company not to undertake any activity which would conflict with the Company and would render the Company incapable of carrying on its business independently. The agreement will terminate if Mr Turrell ceases to hold 30 per cent. or more of the voting rights in the Company.
- 8.1.6 On 20 October 2006 the Company entered into an Imaginatik group reorganisation agreement with Shawn Taylor, Yvonne Lindow, Mark Turrell, Allan Wainwright, Andrew Wainwright and its wholly owned subsidiary Imaginatik (Goswell) Limited pursuant to which the Company agreed to assign to Imaginatik (Goswell) Limited with effect from 31 August 2006 the intellectual property of the Company in certain modules of its Idea Central software in consideration for Imaginatik (Goswell) Limited assuming the obligation of the Company to repay certain indebtedness owing by the Company to each of Mr Taylor, Dr Lindow, Mr Turrell and Mr Allan and Mr Andrew Wainwright. The instalment repayment schedule of the loan of Allan Wainwright was agreed to be extended beyond the dates otherwise due for its repayment.
- 8.1.7 On 20 October 2006 the Company entered into a software assignment with Imaginatik (Goswell) Limited to assign with effect from 31 August 2006 the intellectual property rights in certain modules of its Idea Central software pursuant to the agreement summarised in paragraph 8.1.6 above.

## **9. Intellectual Property**

The Company has registered the trademarks "Imaginatik" and "Idea Central" as well as a number of registered domain names. As set out in Part I, Imaginatik's work is based on proprietary intellectual property that has been developed over the last eight years and which consists of processes, process designs, methodologies and software functionality. As there are limitations to Imaginatik's ability to obtain legal software code in the US and Europe, a strategic decision has been taken to protect its software code through contract and trade secret protection.

## **10. Working Capital**

In the opinion of the Directors, having made due and careful enquiry, following receipt of the proceeds of the Placing, the working capital available to the Company will be sufficient for its present requirements, that is for the next 12 months from the date of Admission.

## **11. Litigation**

No member of the Group is or has been engaged in any legal or arbitration proceedings and no member of the Group is aware that any legal or arbitration proceedings are pending or threatened by or against any member of the Group which may have a significant effect on the financial position of any member of the Group.



## 12. Significant Change

Save as disclosed in this document, there has been no significant or material change in the financial or trading position of the Company since 31 August 2006, the date to which the accountants' report contained in Part III is compiled.

## 13. Taxation

The following information, which sets out the taxation treatment for holders of Ordinary Shares, is based on existing law in force in the UK and what is understood to be current H. M. Revenue & Customs practice. It is intended as a general guide only and applies to Shareholders who are resident in the UK (except to the extent that specific reference is made to Shareholders resident outside the UK), who hold the Ordinary Shares as investments and who are the absolute beneficial owners of those Ordinary Shares.

**Any Shareholders who are in any doubt as to their taxation position or who are subject to taxation in any jurisdiction other than the UK should consult their professional advisers immediately. Shareholders should note that the levels and bases of, and relief from, taxation may change and that changes may affect benefits of investment in the Company. This summary is not exhaustive and does not generally consider tax relief or exemptions.**

### 13.1 Taxation of Dividends

Under current UK tax legislation, no tax will be withheld from any dividend paid by the Company.

### 13.2 UK Resident Individual Shareholders

An individual UK resident Shareholder is currently entitled to a tax credit in respect of the dividend (the "associated tax credit") that can be set off against the total liability to UK income tax. The amount of the associated tax credit is equal to one-ninth of the cash dividend received. The aggregate of the cash dividend and the associated tax credit (the "dividend income") will be included in the Shareholder's income for UK tax purposes and will be treated as the top slice of the Shareholder's income. Thus, an individual UK resident Shareholder receiving a cash dividend of £90 will be treated as having received dividend income of £100, which has the associated tax credit of £10 attached to it.

An individual UK resident Shareholder who, after taking into account the dividend income, pays income tax at the lower rate or basic rate will pay tax on the dividend income at the "ordinary dividend rate" of 10 per cent. against which he can set off the tax credit. As a consequence, such a Shareholder will have no further liability to account for income tax on the cash dividend received.

An individual UK resident Shareholder who, after taking into account the dividend income, pays income tax at the higher rate will pay tax on the dividend income at the "higher dividend rate" of 32.5 per cent. against which he can set off the associated tax credit. Such a Shareholder will have a liability to account for additional tax on the dividend income, calculated by multiplying the gross dividend by the "higher dividend rate" and deducting the tax credit. This will be equivalent to 25 per cent. of the cash dividend received.

An individual UK resident Shareholder who does not pay income tax or whose liability to income tax does not exceed the amount of the associated tax credit will not be entitled to claim repayment of the associated tax credit attaching to the dividend.

### 13.3 Trustees of UK Resident Trusts

For dividends paid to trustees of UK resident discretionary or accumulation trusts, the dividend income will be subject to UK income tax at the "dividend trust rate" of 32.5 per cent. To the extent that the associated tax credit exceeds the trustees' liability to account for income tax, the trustees will have no right to claim repayment of the associated tax credit. Trustees who are in any doubt as to their position should consult their own professional advisers immediately.

### 13.4 UK Resident Corporate Shareholders

A UK resident corporate Shareholder will generally not be liable to UK corporation tax on any dividend received.

### 13.5 UK Resident Pension Funds and Charities

UK resident pension funds and charities are not subject to tax on dividends which they receive. Neither are they generally entitled to claim repayment of the associated tax credit.

### 13.6 Non-resident Shareholders

A Shareholder not resident in the UK for tax purposes is generally not taxed in the UK on dividends received by them nor entitled to an associated tax credit in respect of a dividend received. However, such a non-resident Shareholder may be entitled to a payment from the UK taxing authority (H.M. Revenue & Customs) of a proportion of the associated tax credit in respect of dividends paid to him under a double tax treaty between the UK and the country in which the Shareholder is resident for tax purposes. Non-resident Shareholders may be subject to foreign tax on the dividend income received from the Company. Such non-resident Shareholders should consult their own professional tax advisers on the incidence of tax in the country in which they are resident for tax purposes, as to whether they are entitled to the benefit of any associated tax credit and the procedure for claiming repayment. An individual shareholder who is not resident in the UK but is a Commonwealth citizen, a national of a member state of the European Economic Area or falls within certain categories of person within section 278 of the Income and Corporation Taxes Act 1988 is entitled to set the associated tax credit against their UK income tax liability.

### 13.7 Taxation of Chargeable Gains

A disposal of Ordinary Shares by an individual or corporate Shareholder may result in a liability to UK taxation on chargeable gains, depending upon the relevant circumstances of the transaction and the particular Shareholder's circumstances. Shareholders who are not resident or ordinarily resident in the UK for tax purposes should not generally have liability to UK taxation on chargeable gains.

On 5 April 1998, "taper relief" was introduced which applies to individual Shareholders and trustees (but not to corporate Shareholders). Taper relief reduces the proportion of any chargeable gain assessable to capital gains tax by reference to the period of ownership of the Ordinary Shares by a Shareholder. The rate of taper depends upon whether the Shareholder holds the Ordinary Shares as "business" or "non-business" assets, with the speed of taper relief being accelerated for Ordinary Shares held as "business" assets. Business assets include shares in qualifying unquoted companies or qualifying holding companies. For these purposes, Shareholders should note that companies admitted to trading on AIM are regarded as unquoted. However it is necessary that a company is regarded as a qualifying company in order for the shareholders to obtain business asset taper relief. The directors anticipate that the holding company will be a qualifying company for business asset taper relief but cannot provide a guarantee on this point.

### 13.8 Stamp Duty and Stamp Duty Reserve Tax

Transfers of or sales of Ordinary Shares will be subject to ad valorem stamp duty (payable by the purchaser and generally at the rate of 0.5 per cent. of the consideration given rounded up to the next £5.00). An unconditional agreement to transfer such shares, if not completed by a duly stamped stock transfer form by the seventh day of the month following the month in which such agreement is made or becomes unconditional, will be subject to SDRT (payable by the purchaser and generally at the rate of 0.5 per cent. of the consideration given). However, if within six years of the date of the agreement, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on the instrument, any liability to SDRT will be cancelled or repaid.

## 14. General

14.1 Save as disclosed in Part I and in paragraph 9 of this Part IV, the Directors are not aware of any patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business.

14.2 The gross proceeds of the Placing are expected to be £2.1 million. The total costs and expenses relating to the Placing payable by the Company are estimated to be £0.6 million (excluding VAT).

14.3 Except for payments to trade suppliers, the Company's professional advisers or as set out in paragraph 5 of this Part IV, no person has received any fees, securities in the Company or other benefit to a value of £10,000 or more, whether directly or indirectly, from the Company within the 12 months preceding the application for Admission, or has entered into any contractual arrangement to receive from the Company, directly or indirectly, any such fees, securities or other benefit on or after Admission.

- 14.4 The Directors are not aware of any exceptional factors which have influenced the Company's activities.
- 14.5 Tenon, has given and has not withdrawn its written consent to the issue of this document with the inclusion of their accountants' report in Part III above and the references to such report and to their name in the form and context in which they appear.
- 14.6 W.H. Ireland which is authorised and regulated by the Financial Services Authority in the UK has given and not withdrawn its written consent to the issue of this document with the inclusion of its name and references to its name in the form and context in which they appear.
- 14.7 The Placing Shares, which will be in registered form, will be created under the Act and can be issued in certificated and uncertificated form.
- 14.8 The ISIN number for Ordinary Shares is GB00B1G2HX83.
- 14.9 Save as disclosed in this document, the Company has not made any investments since 31 August 2006 to the date of this document, nor are there any investments by the Group in progress or future investments on which the Group's management have already made firm commitments, which are significant.
- 14.10 The Placing Shares will be issued at 7.5p per Ordinary Share, representing a premium of 7.4375p per Ordinary Share above the nominal value of an Ordinary Share.
- 14.11 The Company's accounting reference date is 31 March.
- 14.12 No person has made a public takeover bid, mandatory takeover bid, squeeze out or sell out, for the Company's issued share capital since the Company was incorporated on 1 March 2000.
- 14.13 Where information in this document has been sourced from a third party, the information has been accurately reproduced and so far as the Company is aware and 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.
- 14.14 The financial information contained in Part III does not constitute statutory accounts within the meaning of section 240 of the Act. The auditors of the Company for the financial years ended 31 March 2004, 31 March 2005 and 31 March 2006 were Tenon Audit Limited, a firm regulated by the Institute of Chartered Accountants in England and Wales.

## **15. Availability of Documents for Inspection**

Copies of the following documents will be available for inspection at the office of W.H. Ireland, 24 Bennetts Hill, Birmingham B2 5QP and Marriott Harrison, 12 Great James Street London WC1N 3DR during normal working hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this document and for a period of one month from the date of Admission:

- 15.1 the memorandum and articles of association of the Company;
- 15.2 the reporting accountants' report by Tenon, set out in Part III of this document;
- 15.3 the service agreements and letters of appointment referred to in paragraph 5.8 above;
- 15.4 the material contracts referred to in paragraph 8 above; and
- 15.5 the letters of consent referred to in paragraphs 14.5 and 14.6 above.

Dated: 11 December 2006

