

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should immediately consult an independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000, if you are in the United Kingdom or, if not, another appropriately authorised independent financial adviser who specialises in advising on the acquisition of shares and other securities.** This document comprises an Admission Document drawn up in accordance with the requirements of the PLUS Rules. Lion Capital Corporation Limited has approved the contents of this document for the purposes of Section 21 of the Financial Services and Markets Act 2000. The Company and the Directors, whose names appear on page 8 of this document, accept responsibility, both individually and collectively, for the information contained in this document. To the best of the knowledge of the Company and its 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 there is no omission likely to affect the import of such information. The share capital of the Company is not presently listed or dealt in on any investment exchange. Application will be made for the Enlarged Share Capital to be admitted to trading on PLUS. It is expected that Admission will become effective and dealings in the Ordinary Shares will commence on 20<sup>th</sup> September 2007.

**PLUS is a market operated by PLUS Markets plc incorporating a primary market for the shares of small and medium companies (known as PLUS-quoted securities). PLUS-quoted securities are not listed and the market is not classified as a Regulated Market under EU financial services law. However, it is regulated by the FSA. An investment in the shares of smaller companies tends to involve a higher investment risk than more mature companies. It is emphasised that no application is being made or has been made for the admission of the Ordinary Shares to the Official List of the UK Listing Authority or to trading on AIM. PLUS is not part of the London Stock Exchange.**

The whole text of this document should be read. An investment in the Company involves a high degree of risk and, in particular, attention is drawn to the sections entitled 'Forward Looking statements' on Page 4 and 'Risk Factors' in Part II of this document. An investment in the Company may not be suitable for all recipients of this document. Prospective investors should consider carefully whether an investment in the Company is suitable for them in light of their personal circumstances and the financial information available to them.

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**Smart Identity PLC**

*(Registered in England and Wales, Number 5667178)*

**Placing of 2,500,000 new Ordinary Shares of 1p each at 30p per Share  
and  
Admission of the Enlarged Share Capital to trading on PLUS**

*PLUS Corporate Adviser*  
**Lion Capital Corporation Limited**

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**Share Capital on Admission**

<i>Authorised</i>		<i>Issued</i>
<i>Amount</i>	<i>Number</i>	<i>Shares</i>
<i>£1,000,000</i>	<i>100,000,000</i>	<i>12,500,000</i>
	Ordinary Shares of 1 penny	

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All of the Ordinary Shares will, upon Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions declared, paid or made in respect of the Ordinary Shares after Admission. Lion Capital Corporation Limited, which is authorised and regulated by the FSA, is the Company's corporate adviser for the purpose of the PLUS Rules. Lion Capital Corporation Limited will not be responsible to anyone other than the Company for providing the protections afforded to customers of Lion Capital Corporation Limited or for advising any other person on the Placing or other arrangements described in this document.

The distribution of this document outside the UK may be restricted by law and therefore persons outside the UK into whose possession this document comes should inform themselves about and observe any restrictions in relation to the Placing, the Ordinary Shares or the distribution of this document. The Ordinary Shares have not been, nor will be, registered in the United States under the United States Securities Act of 1933, as amended, or under the securities laws of Canada, Australia, the Republic of Ireland, South Africa or Japan and they may not be offered or sold directly or indirectly within the United States, Canada, Australia, the Republic of Ireland, South Africa or Japan or to, or for the account or benefit of, US persons or any national, citizen or resident of the United States, Canada, Australia, the Republic of Ireland, South Africa or Japan. This document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful.

Copies of this document are available free of charge from the offices of Lion Capital Corporation Limited, 3<sup>rd</sup> Floor, Henry Thomas House, 5-11 Worship Street, London, EC2A 2BH during normal business hours on any week day (excluding Saturdays and public holidays) and will remain so available for a period of one month from Admission.

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### **FORWARD-LOOKING STATEMENTS**

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

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

The forward-looking statements in this document are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. Certain risks to and uncertainties for the Company are specifically described in Part II of this document headed "Risk Factors". If one or more of these risk factors or uncertainties materialises, or if the underlying assumptions prove incorrect, the Company's actual results may vary materially from those expected, estimated or projected. Given these risks and uncertainties, potential investors should not place any reliance on forward-looking statements.

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

## DEFINITIONS

The following terms apply in this document unless the context requires otherwise:

“Act”	the Companies Act 1985, as amended
“Admission”	admission of the Enlarged Share Capital to trading on PLUS and such admission becoming effective in accordance with the PLUS Rules
“AGM”	the annual general meeting of the Company (to be called on short notice) and held on 26 <sup>th</sup> July 2007
“AIM”	the market of that name regulated by the London Stock Exchange
“ANS”	ANS Group plc, No 3176761
“Articles”	the articles of association of the Company
“Board” or “Directors”	the directors of the Company
“CLB”	CLB Coopers
“Company” or “SMARTiD”	Smart Identity plc
“Cornerstone”	Cornerstone IT Partnership
“CREST”	the computerised settlement system operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form in accordance with the CREST Regulations
“CRESTCo”	CRESTCo Limited, No 6179984, the operator of CREST
“CREST Regulations”	the Uncertificated Securities Regulations 2001, as amended from time to time
“Enlarged Share Capital”	the issued ordinary share capital of the Company immediately following Admission, comprising the Existing Ordinary Shares and the Placing Shares
“Existing Ordinary Shares”	the 10,000,000 Ordinary Shares in issue on the date of this document
“FSA”	The Financial Services Authority, No 1920623
“FSMA”	the Financial Services and Markets Act 2000, as amended
“HMRC”	HM Revenue & Customs
“ICTA”	the Income and Corporation Taxes Act 1988, as amended

“LCC”	Lion Capital Corporation Limited, No 2075091, PLUS corporate adviser to the Company
“London Stock Exchange”	London Stock Exchange plc, No 2075721
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares”	the ordinary shares of 1 penny each in the capital of the Company
“Placees”	those persons subscribing for the Placing Shares in the Placing at the Placing Price
“Placing”	the conditional placing of the Placing Shares as described in this document, pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 26th July 2007 and made between Lion (1), the Company (2) and the Directors (3)
“Placing Price”	30p per Ordinary Share
“Placing Shares”	up to 2,500,000 new Ordinary Shares to be issued pursuant to the Placing at the Placing Price
“PLUS”	a market operated by PLUS Markets plc, which is regulated by the FSA and which allows trading in the shares of unquoted companies
“PLUS Rules”	the rules for the regulation of PLUS published by PLUS Markets plc governing companies whose shares are admitted to trading on PLUS or which seek to be admitted as such
“Registrars”	Share Registrars Limited, No 4715037
“Shareholders”	holders of Ordinary Shares from time to time
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the FSA acting in its capacity as a competent authority for the purposes of Part VI of FSMA
“VAT”	value added tax

## PLACING STATISTICS

Placing Price	30p
Number of Existing Ordinary Shares	10,000,000
Number of new Ordinary Shares being issued under the Placing*	2,500,000
Number of Ordinary Shares in issue immediately following Admission*	12,500,000
Percentage of Enlarged Share Capital being placed*	20 per cent
Gross proceeds of the Placing*	£750,000
Estimated net proceeds of the Placing receivable by the Company*	£640,000
Market capitalisation following the Placing at the Placing Price*	£3,750,000

\*Assuming full subscription under the Placing

## EXPECTED TIMETABLE AND INFORMATION

Admission and commencement of dealings on PLUS	8.00 am on 20 <sup>th</sup> September 2007
CREST accounts credited by	<b>20<sup>th</sup> September</b> 2007
Dispatch of definitive share certificates (where applicable) by	<b>27<sup>th</sup> September</b> 2007
ISIN	GB00B23F8C32

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Scott Jonathan Fletcher, <i>CEO and Chairman</i> Christopher Simon Malthouse, <i>Finance Director</i> Derek Henry McDermott, <i>Non-Executive Director</i> <i>all of</i> Suite B, Synergy House, Guildhall Close, Manchester Science Park Manchester M15 6SY
<b>Company Secretary</b>	Christopher Simon Malthouse
<b>Registered Office and Principal place of Business</b>	Suite B Synergy House Guildhall Close Manchester Science Park Manchester, M15 6SY
<b>Telephone Number</b>	+44 (0) 161 227 1030
<b>PLUS Corporate Adviser</b>	Lion Capital Corporation Limited 3 <sup>rd</sup> Floor, Henry Thomas House 5-11 Worship Street London, EC2A 2BH
<b>Auditors and Reporting Accountants</b>	CLB Coopers 11, St Peter's Square Manchester, M2 3DN
<b>Solicitors to the Company</b>	Berg Legal 35 Peter Street Manchester, M2 5BG
<b>Solicitors to the Placing</b>	Irwin Mitchell 150 Holborn London, EC1N 2NS
<b>Registrars</b>	Share Registrars Limited Craven House West Street, Farnham Surrey, GU9 7EN

## PART I

### INFORMATION ON THE COMPANY

#### 1. Introduction

##### **Background to the Company**

SMARTiD is an innovative software developer of identity management solutions. The Company was incorporated on 5 January 2006 as a subsidiary of PLUS quoted ANS. ANS was formed on 22 March 1996 and admitted to PLUS on 21 August 2000 and is now trading as a profitable technology focused solutions company. ANS chose to establish SMARTiD as an entity in its own right in order to separate its reseller business from its software development business. Following the Placing and Admission, ANS will have a stake of 31.2%.

SMARTiD's product portfolio has been created around a philosophy of seeking to keep the cost of the product affordable for companies whilst not adding significant additional IT management overheads to the network. SMARTiD is targeting companies with up to 2,000 people on the network.

As of 12th June 2007, the Company had built up a customer base of 29 clients and has a confirmed pipeline of business going forward. As a result of ANS's established NHS customer list, SMARTiD's sales have been focused on the healthcare sector. In the first year of trading, invoices raised exceeded £250,000. Invoices raised in the first quarter alone, in the current year, reached £190,899.

##### **Trading update**

Following the audited accounts as at 31 March 2007, the following significant trading updates have been issued via the ANS newswire with regards to SMARTiD:

**Smart Identity has been approved as a partner of EDT.** (EDT is the Cabinet Office's E-Delivery Team and the accreditation is for SMARTiD's Departmental Integration Server ("DIS") solution. )

**Significant order for SMARTiD software.** (ANS acting as a reseller for SMARTiD received an order for £210,000 for software and services, this resulted in an order being placed on SMARTiD for £150,000 in the 3 months following the last audited accounts.)

## Products and Services

SMARTiD's current portfolio includes four main products. To date, these products have been installed in 20 NHS Trusts and a further 4 government bodies.

- **SMARTiD Single Sign On** - a product initially targeted at network administrators managing anywhere between 250 – 2,000 users. The product is designed to appeal to computer users with too many passwords. This software sells for around £25,000 per location with an additional annual support charge of 15 - 18% of the initial licence fee. This pricing compares favourably with what the Company considers to be its main competition.
- **SMARTiD Networks** - targeted at organisations which already use smart cards or similar devices, such as the NHS. This product operates using a method (patent in application stages) which uses a smartcard for logon without writing anything to the card.
- **SMARTiD RAS** - designed to allow remote users to log into networks using a smart card.
- **SMARTiD DIS** – a 'Departmental Integration Server' which provides a certificated, reliable and secure way to access the Government Gateway and the GC Register service of Government Connect. This gives the public sector a secure, scalable solution.

The intellectual property rights relating to the above products will be assigned to the Company by ANS as disclosed in Part IV, section 9 of this document.

The Company also provides installation and ad hoc development services to its customers.

## Business Model

The Company's strategy is to sell primarily through value added resellers and it has worked and continues to work closely with ANS in this regard. Since commencement of trading to 30 June 2007, sales via the ANS group of companies represented approximately 54% of the Company's total turnover. However the Company has recently started to engage formally with other reseller partners and plans to recruit a sales director to manage this process. The Directors believe that the establishment of SMARTiD as a separately quoted business, a further step removed from ANS, will encourage other resellers to engage in business with SMARTiD.

For a period of at least eighteen months from the date of this document, resellers will be used in SMARTiD's target market of 250-2,000 users. Resellers attract discount levels of between 15% and up to 35% of the end user price.

Based on figures in the three months to 6<sup>th</sup> June 2007 approximately 90% of the organisations with which the Company has met have resulted in a quotation. Based on figures for the same period, the conversion of a quotation to a customer order within three months of quotation has been approximately 50%. This has resulted in forecast sales for the first six months of this financial year being expected to exceed those achieved in the whole of the last financial year.

The Board is focused on driving strong recurring revenues, with contracted recurring revenues forecast to be over 30% of turnover by 2010.

## **Marketing**

SMARTiD intends to focus for the time being on direct marketing to the NHS, UK police forces and education establishments. SMARTiD has already invested in various databases and intends to work with a number of value added resellers to co-fund activity in the following areas:-

- seminars;
- outsourced cold calling;
- direct mailing;
- calling reseller customer lists; and
- trade events.

Over time, SMARTiD also plans to develop other routes to market. For customer user counts above 5,000, it will introduce a direct sales force. For smaller customers it is planning to outsource distribution.

## **The Market**

According to a recent study carried out by The Radicati Group Inc. of Palo Alto, California on the identity management software market, its global value is expected to increase to more than \$8 billion in 2009.

To date, SMARTiD products have been installed in 20 NHS trusts. As at June 2007, there are 678 NHS trusts in the UK. Based on the current NHS trust orders, giving an average deal size of approximately £24,000 that creates an estimated market size within the NHS market of £16,000,000.

Opportunities for sales outside the NHS have already been identified. For example, a UK regional police force has recently ordered a pilot system and the Directors expect further interest from the police sector due to the roll out of national systems using Smart Cards similar to those used by the NHS. There are 52 Police forces within the United Kingdom which SMARTiD plans to target in conjunction with its resellers.

SMARTiD has entered into a reseller agreement with an organisation which has over 240 education establishments as customers and is in the process of finalising plans which the Board anticipates will lead to the marketing of its products to these educational establishments including a number of UK universities.

Should the UK Government proceed with the idea of national identity cards, the Directors anticipate that there will be opportunities to sell SMARTiD products making use of the cards.

Additionally the SMARTiD software has the potential ability to support the use of biometric technology.

## **Competition**

The Company considers the following products as being competitive with its product set:-

- Imprivata - Onesign;
- Novell – Securelogon; and
- Citrix - Password Manager.

The SMARTiD product range is priced below that of the products listed above and the Company's records show that it has not yet lost a quoted deal to a competitor.

## **2. Terms of the Placing**

The Company has raised £750,000 by way of a private placing of Ordinary Shares.

On Admission, the Company will have 12,500,000 Ordinary Shares in issue.

The proceeds of the Placing will be used to provide the Company with resources to recruit key staff and develop the reseller channel as well as to provide currency for future acquisitions.

Trading in the Enlarged Share Capital on PLUS is expected to commence on 20th September 2007.

## **3. Reasons for the Placing and Admission and use of Placing Funds**

The Directors have decided to seek a PLUS trading facility as they believe that it will provide funds to accelerate the growth of the business, give it a currency with which to pursue suitable acquisitions, provide added incentives for key staff by way of share options, further develop a reseller channel and raise the profile of SMARTiD with potential customers.

SMARTiD wishes to capitalise on a growing market where it has an established presence. A product set has been developed and sold to a number of customers. The Directors believe that the Company has the opportunity to build on its current position by further developing its software and by increasing its sales and marketing activities.

The Directors between them have experience in the early stages of publicly quoted companies and understand the importance of controlling expenditure, especially with regard to recruitment of sales personnel. The Company is also interested in examining opportunities for acquisitions. The Directors have successful experience of carrying out acquisitions and the subsequent integration.

## **4. Directors and management**

Brief biographies of the Directors are set out below. Paragraph 6 of Part IV of this document contains further details of current and past directorships and certain other information regarding the Directors.

### **Scott Jonathan Fletcher – CEO and Chairman**

Scott is a director of ANS and CEO and chairman of SMARTiD. Scott is 33 years old and has spent his entire working career in the IT industry. He established ANS in 1996. Scott has led ANS through four acquisitions, as well as delivering sustained growth in both turnover and profitability.

### **Christopher Simon Malthouse – Finance Director (ACA, MBA, BEng)**

Christopher is currently commercial director of ANS. Christopher is 38 years old and has over 10 years experience in the IT and telecommunications industries. He worked as a key member of the management team that set up a telecoms subsidiary of Yorkshire Electricity helping to grow it to a turnover of £15m and was involved with the sale of the business to a third party.

He joined ANS in 2000. Christopher is a qualified chartered accountant (ACA), has a Master of Business Administration qualification (MBA) and a degree in Engineering (BEng).

### **Derek Henry McDermott – Non Executive Director**

Derek is a specialist in the authentication and access management arena, having run a biometrics software company for over 10 years. He is 58 years old and now holds several non-executive positions with biometric and software development businesses.

In addition, the Company employs a general manager and is also looking to recruit a sales manager following Admission.

## **5. Share Option Scheme**

For the purposes of incentivising the management and key employees of the Company, the Directors have adopted a share option scheme and share options have been granted as detailed in Part IV of this document. It is envisaged that further options will be granted to future employees either on the basis of the scheme already in place or pursuant to a scheme adapted under the EMI legislation.

## **6. Lock-in and Orderly Market Arrangements**

At the start of trading on PLUS, the Directors will have an interest in 1,950,000 Ordinary Shares representing 15.6% of the Enlarged Share Capital.

As required by the PLUS Rules, each of the Directors have undertaken that they will not, during a period of twelve months from Admission, dispose of any interest in Ordinary Shares held by them at any time during such period. The undertakings are subject to limited exceptions which permit disposals, for example in the specific circumstances of a takeover offer.

ANS is deemed to be a connected person of the Directors as a result of Mr. Fletcher and Mr. Malthouse also being Directors of ANS. ANS has accordingly entered into a lock-in agreement on the same terms as those entered by the Directors.

Under the terms of a share purchase agreement dated 27 July 2007, ANS acquired the entire share capital of Rivington Street Software Limited from Rivington Street Holdings Limited (“**Rivington**”). The consideration for this acquisition was the transfer by ANS of 1,000,000 Ordinary shares in SMARTiD to Rivington, as a consequence of which Rivington acquired 10% of the issued share capital of the Company (pre-Placing). Rivington has agreed to accept a lock-in commitment on the same basis as the Directors and ANS. Rivington is the parent company of LCC.

In addition, each of the Directors has undertaken not to dispose of any interest in Ordinary Shares for a further period of twelve months from the first anniversary of Admission unless he shall first have obtained the prior consent of LCC (or the Company’s then corporate adviser) in relation to such disposal (unless such consent has been unreasonably withheld) and such disposal is effected through the Company’s broker from time to time with a view to the maintenance of an orderly market in the shares of the Company.

## **7. Dividend Policy**

It is the intention of the Directors to aim for capital growth. It is inappropriate at this stage to give an indication of the likely time of payment or level of future dividends.

## **8. Corporate Governance**

The Directors recognise the importance of sound corporate governance whilst taking into account the size and nature of the Company. As the Company grows, the Directors intend that the Company should develop policies and procedures that reflect the principles of good governance as set out in the QCA Guidelines issued in February 2007 to the extent they consider appropriate in the light of the Company's size, stage of development and resources.

Audit and remuneration issues are addressed by the Board (although a Director will not be entitled to vote or to count in the quorum in relation to any resolution of the Board concerning his own remuneration). As the Company grows, the Board will consider establishing audit and remuneration committees.

The Company has adopted and will operate a share dealing code for Directors and employees as required by the PLUS Rules.

## **9. Taxation**

Information regarding UK taxation in relation to the Placing and Admission is summarised in paragraph 10 in Part IV of this document. If you are in any doubt as to your tax position you should consult your own independent financial adviser.

## **10. Financial Information**

Financial information about the Company is set out in Part III of this document.

As far as the Directors are aware and able to ascertain the financial information as disclosed in Part III has been prepared in accordance with the law applicable to the Company and they accept responsibility for it.

The accounting reference date of the Company is 31<sup>st</sup> March.

## **11. Admission to Trading on PLUS**

Dealings in the Enlarged Share Capital are expected to commence on PLUS on 20th September 2007.

PLUS has a company information and announcement system called Newstrack. Newstrack is an electronic news and information service for professional intermediaries, which carries information on PLUS companies, announcements by such companies, and other information on PLUS including bid and offer prices and trade information. Newstrack is available to private investors through the internet at ([www.newstrackPLUS.com](http://www.newstrackPLUS.com)) and via other licensed internet vendors.

Any individual wishing to buy or sell shares which are traded on PLUS must trade through a stock broker (being a broker dealer member of PLUS, who also has been regulated by the FSA) because the facilities of PLUS are not available directly to the public.

## **12. CREST**

The Articles permit the Company to issue shares in un-certificated form in accordance with the Uncertificated Securities Regulations 2001. Application will be made for the Existing Ordinary Shares and the Placing Shares to be admitted to CREST upon Admission.

### 13. Further Considerations

**Your attention is drawn to the Risk Factors set out in Part II of this document and the information contained in the rest of this document.**

### 14. Enterprise Investment Scheme

#### Taxation

The attention of investors is drawn to the further information regarding taxation set out in paragraph 10 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 and are not intended to be exhaustive. **Investors who are in any doubt as to their tax position or who are subject to a tax jurisdiction other than the UK are strongly advised to consult their professional advisers.**

#### Enterprise Investment Scheme (“EIS”)

Provided that the investor and the Company comply with the EIS legislation (Chapter III of Part VII of the Taxes Act and Sections 150A-D, Schedule 5B and 5BA of the Taxation of Chargeable Gains Act 1992), which includes a requirement that the Ordinary Shares are held by investors for not less than three years, UK taxpayers should qualify for EIS relief on their investment in newly issued shares in the Company.

The Directors have received provisional approval from HM Revenue & Customs, in accordance with HM Revenue & Customs’ practice, that subject to a form EIS1 being submitted, the Company is to be treated as carrying on a qualifying trade for EIS purposes. The Directors intend to manage the Company so as to maintain (as far as they are able) the status of the Company as a qualifying company although no guarantee can be given in this regard.

There are five EIS tax reliefs being:

(i) *Income tax relief*

Individuals can obtain income tax relief on the amount subscribed for ordinary shares (to a maximum of £400,000) in one or more qualifying companies, which are retained for a period of three years, provided the individuals are not connected to the issuing company. A tax credit of 20% of the eligible amount subscribed is given. The credit is given against the individual’s income tax liability for the tax year in which the ordinary shares are issued although it is possible to carry back part of the relief to the preceding tax year where ordinary shares are issued before 6 October in any tax year. The relief will be limited to an individual’s tax liability before EIS relief and cannot create a loss. EIS income tax relief is not available for individuals who own more than 30% of the issued share capital of the Company or certain other connected individuals.

(ii) *Capital gains tax (“CGT”) exemption*

Any capital gains realised on the disposal, after three years, of ordinary shares on which EIS income tax relief has been given and not withdrawn are tax free. This exemption is not available for individuals who own more than 30% of the issued share capital of the Company or other connected individuals.

(iii) *Loss relief*

Subject to certain conditions, tax relief is available for a qualifying shareholder who realises a loss on a disposal of ordinary shares on which EIS income tax relief (see (i) above) has been given and not withdrawn or CGT deferral relief (see (iv) below) has been given and not withdrawn. The amount of the loss (after taking account of the income tax relief initially obtained) can be set against a capital gain in the year of loss or following years or offset against taxable income in the tax year in which the disposal occurs or the preceding year.

(iv) *Capital gains tax liability/deferral*

To the extent that a UK resident (which includes individuals and certain trustees subscribing for qualifying ordinary shares) a claim can be made to defer all or part of a chargeable gain arising on the disposal of any asset. Although there is a limit of £400,000 for income tax relief and the exemption from CGT (see (i) and (ii) above), there is no limit on the amount of gains that can be deferred in this way. The subscription must have been made within one year before or three years after the date of the disposal which gave rise to the gain or the date when a previously deferred gain crystallises. The gain is deferred until there is a “chargeable event” such as the disposal of ordinary shares after the three year qualifying period. If the investing ordinary shareholder dies or does not retain the ordinary shares for three years or the EIS rules are otherwise breached, the CGT deferred originally granted will be withdrawn and tax will be charged on the basis of a taxable event occurring at the date the rules cease to be met or, in certain instances, by reference to the normal payment date.

(v) *Serial EIS investor relief*

Investors who defer a chargeable gain on the disposal of an EIS investment by reinvesting the proceeds of the original EIS investment in the ordinary shares of another EIS Company may benefit from taper relief on a cumulative basis. In these circumstances, taper relief, which reduces the amount of a chargeable gain according to how long an asset has been held after 5 April 1998, will be calculated over the combined period for which both investments (and further investments if the gain is further deferred) are held. This relief applies where the ordinary shares in the first EIS Company were issued after 5 April 1998 and are disposed of after 5 April 1999.

Whilst the Company cannot guarantee to conduct its activities in a way to allow it to maintain its status as a qualifying EIS investment, the Directors intend, as far as possible, to do so.

## **PART II**

### **RISK FACTORS**

An investment in the Ordinary Shares should be regarded as speculative and should only be made by those with the necessary expertise to evaluate the investment fully. An investment in the Ordinary Shares involves a high degree of risk. In addition to the usual risks associated with an investment in a business at an early stage of development, the Directors believe that the specific risks referred to below as well as other information in this document should be considered carefully by investors before acquiring Ordinary Shares.

Prospective investors are advised to consult an independent adviser authorised under the FSMA who specialises in advising on investments of this kind before making any investment decision.

If any of the risks described in this document actually occur, the Company may not be able to conduct its business as currently planned and its financial condition, operating results and cash flows could be seriously harmed. In that case, the market price of Ordinary Shares could decline and all or part of an investment in the Ordinary Shares could be lost.

No inference ought to be drawn as to the order in which the following risk factors are presented as to their relative importance or potential effect.

Additional risks and uncertainties not currently known to the Board, or which the Directors currently deem immaterial, may also have an adverse effect on the Company's business and the information set out below does not purport to be an exhaustive summary of the risks affecting the Company.

A prospective investor should consider carefully whether an investment in the Company is suitable in the light of his, her or its personal circumstances and the financial resources available to him, her or it.

#### **1. Suitability**

An investment in Ordinary Shares may not be suitable for all readers of this document. Investors are accordingly advised to consult an appropriate person authorised under the FSMA before making their decision.

## **2. Market Factors**

Substantial future sales of the Ordinary Shares could have an impact upon the market price of Ordinary Shares.

There has been no prior public market in the Ordinary Shares and an active trading market may not develop or be sustained in the future.

The Ordinary Shares are not listed or dealt in on any stock exchange. Notwithstanding the fact that an application will be made for the Ordinary Shares to be traded through PLUS, this should not be taken as implying that there will be a “liquid” market in the Ordinary Shares. The share price of publicly traded emerging companies can be highly volatile and the Ordinary Shares may be difficult to sell. The price at which the Ordinary Shares will be traded and the price at which investors may realise their investment will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect quoted companies generally. Prospective investors should be aware that the value of the Ordinary Shares could go down as well as up, and investors may therefore not recover their original investment especially as the market in the Ordinary Shares may have limited liquidity.

Acceptance of the Company's application for Admission, and continued admission to trading on PLUS, is entirely at the discretion of PLUS Markets plc. Any changes to the regulatory environment, in particular the PLUS Rules, could affect its ability to maintain a trading facility on PLUS.

There is no guarantee that the market price of an Ordinary Share will accurately reflect the underlying value of the Company's net assets or operations.

The Ordinary Shares are intended for a capital growth and may not be suitable as a short-term investment. Investors may therefore not realise their original investment at all, or within the timeframe they had originally anticipated.

## **3. Company Factors**

- Competition reducing their pricing structures to a level which is lower than the Company's could detrimentally affect the Company's market share.
- Customers obtaining alternative solutions to their requirements is likely to reduce the Company's sales prospects.
- There is a risk that the Company could be held responsible for loss of data, breach of confidentiality and unauthorised access.
- Proprietary rights are important to the Company's success and its competitors' position. In order to protect its proprietary rights, the Company relies primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions. The Company seeks to protect software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. There can be no assurances that others will not develop technologies that are similar or superior to the Company's technology, design around the Company's products and services, copy aspects of the Company's products and services or obtain and use the Company's proprietary information.
- There is no assurance that the Company can commercially protect its rights to proprietary technology or that other third parties will not independently develop substantially equivalent or superior technology.

- The Company involves a small number of people, any one of whose departure could, in the short term, materially and adversely impact its business plan, at least whilst the Directors arrange for alternative management of the Company's business.
- There is no guarantee that the Company's strategy, product development and marketing will achieve profitable results. Investors risk losing all of the capital invested.
- The ability to implement the Company's business strategy successfully may be adversely impacted by factors outside the Directors' control that they cannot foresee, such as technological, legislative or regulatory change.
- The Directors believe that the Company is, and will following the issue of the New Ordinary Shares be, a qualifying company for the purposes of the legislation governing EIS and Venture Capital Trusts ("VCTs"). The legislation relating to EIS and VCTs is complex and the Company cannot guarantee or undertake that its shares will qualify, or always continue to qualify, although there is no present intention to take any action which would result in relief being denied or withdrawn.
- The Company is still at an early stage and this clearly increases the uncertainties of future business performance prediction.
- The capital raised by the Placing is judged by the Directors to give sufficient working capital. This may not be the case because circumstances may change, the Company may perform less successfully than envisaged, or the Company may seek new capital to meet new competition or expand the business in ways not currently envisaged. There can be no assurances that additional funding would be available to the Company, or if available, that it would not dilute the existing Shareholders' interests.
- There is no certainty that the Company will generate sufficient after tax profits to be able to pay a dividend.

#### **4. Other Factors**

##### ***Legislation and Tax***

This document has been prepared on the basis of current legislation, rules and practice and the advisers' interpretation thereof. Such interpretation may not be correct and it is always possible that legislation, rules and practice may change. Any changes in taxation legislation and rules, and in particular any changes to bases of taxation, tax relief and rates of tax, may affect the availability of reliefs. Changes in legislation affecting the Company's business may be introduced at any time and may impact on the business operations and financial condition of the Company.

##### ***Lock-in and orderly market arrangements***

The market price of Ordinary Shares could decline significantly as a result of any sales of Ordinary Shares by certain Shareholders following expiry of the lock-in period (or otherwise), as detailed in the paragraph entitled "Lock-in and Orderly Market Arrangements" of Part I of this document or the perception that these sales could occur.

### *Forward-looking Statements*

Forward-looking statements in this document are no guarantee of future performance and only reflect the views and assumptions as of the date of this document and are subject to risks, uncertainties, market conditions and other factors, some of which are beyond the control of the Company and difficult to predict.

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

**Private and Confidential**

The Directors  
Smart Identity plc  
Synergy House  
Manchester Science Park  
Manchester  
M15 6SY

The Directors  
Lion Capital Corporation Limited  
3<sup>rd</sup> Floor Henry Thomas House  
5-11 Worship Street  
London EC2A 2BH

20<sup>th</sup> September 2007

Dear Sirs

**Smart Identity plc (“the Company”)**

We report on the financial information set out below in respect of Smart Identity plc, formerly Smart Identity Limited. This financial information has been prepared for inclusion in the PLUS Admission Document of the Company dated 20<sup>th</sup> September 2007 (the “PLUS Admission Document”) on the basis of the accounting policies set out in the notes to the financial information. This report is required by paragraph 26 of Appendix 1 of the PLUS Rules and is given for the purpose of complying with that paragraph and for no other purpose.

**Basis of preparation**

The financial information set out below is based on the audited financial statements of the Company for the 15 months ended 31 March 2007, no adjustments being considered necessary.

**Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in the accounting policies as part of the financial information and in accordance with United Kingdom law and accounting standards.

The Directors are also responsible for the contents of the PLUS Admission Document in which this report is included.

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

Save for any responsibility arising under the PLUS Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report.

### **Basis of Opinion**

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

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion the financial information contained in this report gives, for the purposes of the PLUS Admission Document dated 20<sup>th</sup> September 2007, a true and fair view of the state of affairs of the Company as at 31 March 2007 and of its result for the 15 month period then ended in accordance with United Kingdom Accounting Standards.

### **Declaration**

For the purposes of paragraph 26 of Appendix 1 of the PLUS Rules we are responsible for this report as a part of the PLUS 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 omissions likely to affect its import. This declaration is included in the PLUS Admission Document in compliance with paragraph 26 of Appendix 1 to the PLUS Rules.

Yours faithfully

**CLB Coopers**

## Profit and Loss Account

Period from 5 January 2006 to 31 March 2007

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	Note	Period from 5 Jan 06 to 31 Mar 07 £
Turnover	2	214,047
Cost of sales		(33,352)
<b>Gross profit</b>		<b>180,695</b>
Administrative expenses		(177,698)
<b>Profit on ordinary activities before taxation</b>		<b>2,997</b>
Tax on profit on ordinary activities	6	(569)
<b>Profit for the financial period</b>		<b>2,428</b>

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the period as set out above.

The notes to the accounts form part of these financial statements.

## Balance Sheet

31 March 2007

---

	Note	31 Mar 07 £
<b>Current assets</b>		
Debtors	7	148,353
Cash at bank		13,884
		<hr/>
		162,237
<b>Creditors: Amounts falling due within one year</b>	8	(80,809)
		<hr/>
<b>Net current assets</b>		81,428
		<hr/>
<b>Total assets less current liabilities</b>		81,428
		<hr/> <hr/>
<b>Capital and reserves</b>		
Called-up equity share capital	11	1,000
Other reserves	12	78,000
Profit and loss account		2,428
		<hr/>
<b>Shareholders' funds</b>	13	81,428
		<hr/> <hr/>

These financial statements were approved by the directors on the 17<sup>th</sup> July 2007 and are signed on their behalf by:

S J Fletcher

The notes to the accounts form part of these financial statements.

## Cash Flow Statement

Period from 5 January 2006 to 31 March 2007

---

	Note	Period from 5 Jan 06 to 31 Mar 07 £
Net cash outflow from operating activities	14	(14,116)
Cash outflow before financing		<hr/> (14,116)
<b>Financing</b>		
Subscription monies received		78,000
Loan to parent undertaking		(50,000)
Net cash inflow from financing		<hr/> 28,000
Increase in cash	14	<hr/> <hr/> 13,884

The notes to the accounts form part of these financial statements.

## **Notes to the Financial Statements**

### **1. Accounting policies**

#### **Basis of accounting**

The financial statements have been prepared under the historical cost convention.

#### **Turnover**

This represents the value of goods sold and services provided, net of value added tax and trade discounts. Revenue in respect of licence sales is recognised at the point of installation. Revenue in respect of maintenance and support contracts is recognised on a straight line basis over the period of providing the service.

#### **Deferred Income**

Amounts invoiced in excess of turnover recognised on maintenance and support contracts are accounted for in the balance sheet as deferred income.

#### **Intellectual property and development expenditure**

The costs of developing or acquiring software, intellectual property rights and patents are written off as incurred.

#### **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 company after deducting all of its liabilities.

## Notes to the Financial Statements

### 2. Turnover

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

An analysis of turnover is given below:

	<b>Period from 5 Jan 06 to 31 Mar 07 £</b>
United Kingdom	<b>214,047</b>

### 3. Operating profit

Operating profit is stated after charging:

	<b>Period from 5 Jan 06 to 31 Mar 07 £</b>
Auditor's remuneration - as auditor	<b>5,750</b>

### 4. Particulars of employees

The average number of staff employed by the company during the financial period amounted to:

	<b>Period from 5 Jan 06 to 31 Mar 07 No</b>
Number of administrative staff	<b>3</b>

## Notes to the Financial Statements

The aggregate payroll costs of the above were:

	<b>Period from 5 Jan 06 to 31 Mar 07 £</b>
Wages and salaries	<b>86,375</b>
Social security costs	<b>7,973</b>
	<hr/> <b>94,348</b> <hr/> <hr/>

### 5. Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	<b>Period from 5 Jan 06 to 31 Mar 07 £</b>
Emoluments receivable	<b>5,891</b>
	<hr/> <hr/>

### 6. Taxation on ordinary activities

	<b>Period from 5 Jan 06 to 31 Mar 07 £</b>
Current tax:	
UK Corporation tax based on the results for the period at 19%	<b>569</b>
	<hr/>
Total current tax	<b>569</b>
	<hr/> <hr/>

## Notes to the Financial Statements

### 7. Debtors

	31 Mar 07 £
Trade debtors	48,044
Amounts owed by group undertakings	97,809
Other debtors	1,500
Called up share capital not paid	1,000
	<hr/>
	<b>148,353</b>
	<hr/> <hr/>

Called up share capital not paid comprises £490 due from the company's parent undertaking, ANS Group plc, and £510 due from a director, C S Malthouse.

### 8. Creditors: Amounts falling due within one year

	31 Mar 07 £
Trade creditors	7,498
Corporation tax	569
VAT	9,738
Accruals and deferred income	63,004
	<hr/>
	<b>80,809</b>
	<hr/> <hr/>

### 9. Financial risk management objectives and policies

The company holds or issues financial instruments in order to achieve three main objectives, being:

- (a) to finance its operations;
- (b) to manage its exposure to interest and currency risks arising from its operations and from its sources of finance; and
- (c) for trading purposes.

In addition, various financial instruments (e.g. trade debtors, trade creditors, accruals and prepayments) arise directly from the company's operations.

Transactions in financial instruments result in the company assuming or transferring to another party one or more of the financial risks described below.

#### ***Interest rate risk***

The company is exposed to fair value interest rate risk on its fixed rate borrowings and cash flow interest rate risk on bank overdrafts and loans.

## Notes to the Financial Statements

### *Credit risk*

Investments of cash surpluses and borrowings are made through banks and companies which must fulfill credit rating criteria approved by the Board.

All customers who wish to trade on credit terms are subject to credit verification procedures. Trade debtors are reviewed on a regular basis and provision is made for doubtful debts when necessary.

### *Liquidity risk*

The company manages its cash and borrowings requirements in order to maximise interest income and minimise interest expense, whilst ensuring the company has sufficient liquid resources to meet the operating needs of the business.

## 10. Related party transactions

During the year the company entered into transactions under normal commercial terms with its parent undertaking, ANS Group plc, and BIOS Limited, a subsidiary of ANS Group plc, as follows:

	<b>31 Mar 07</b>
	<b>£</b>
ANS Group plc	
Sales to ANS Group plc	<b>57,355</b>
Purchases from ANS Group plc	<b>16,373</b>
Payment to acquire intellectual property rights from ANS Group plc	<b>21,405</b>
Management charge paid to ANS Group plc	<b>35,000</b>
BIOS Limited	
Sales to BIOS Limited	<b>21,650</b>

During the period the company entered into an agreement with ANS Group plc to acquire the Intellectual Property Rights of certain software products for a consideration equal to 10% of the company's cumulative turnover, up to a maximum of £100,000. The first payment of £21,405 disclosed above has been written off in accordance with the company's accounting policies.

During the period the company also provided an interest-free loan of £50,000 to ANS Group plc. The balance of £50,000, which is repayable on demand, remains outstanding at the balance sheet date.

Amounts due (to)/from related parties at the balance sheet date are as follows:

	<b>31 Mar 07</b>
	<b>£</b>
ANS Group plc	<b>76,600</b>
ANS Group plc - unpaid share capital	<b>490</b>
BIOS Limited	<b>21,209</b>

## Notes to the Financial Statements

### 11. Share capital

#### Authorised share capital:

	31 Mar 07
	£
1,000 Ordinary shares of £1 each	<u><u>1,000</u></u>

#### Allotted, called up and fully paid:

	No	£
Ordinary shares of £1 each	<u><u>-</u></u>	<u><u>-</u></u>

#### Called up share capital not paid:

	No	£
Ordinary shares of £1 each	<u><u>1,000</u></u>	<u><u>1,000</u></u>

On 5 January 2006 the company was incorporated with 1,000 authorised, allotted and called up ordinary shares of £1 each. Payment in respect of these shares was received by the company after the balance sheet date.

In addition to the company's called up share capital of £1,000, an equity reserve of £78,000 has been established during the period in respect of shares to be issued as described in note 12.

#### Share options

Options have been granted to subscribe for ordinary shares in the company as follows:

Date of grant	Outstanding at 31 March 2007	Exercise price per share
1 April 2006	50	£200
1 October 2006	30	£1,000

In the absence of readily available market information in respect of factors affecting the value of share options at the date of grant, the directors have made certain assumptions in respect of options issued on 1 April 2006 and 1 October 2006. In the opinion of the directors, the annual charge to the profit and loss account in respect of share based payments under Financial Reporting Standard 20 is not material.

## Notes to the Financial Statements

### Directors' Share Options

The options issued on 1 April 2006 were granted to SJ Fletcher and are exercisable upon the earlier of (a) a major event (e.g sale of the business) or (b) the expiry of the second anniversary of the date of grant, or at the discretion of the board of directors.

Subject to the company having been listed on Plus Markets for a period of twelve months, the options issued on 1 October 2006 are exercisable upon the earlier of (a) a major event (e.g sale of the business) or (b) the expiry of the third anniversary of the date of the grant, or at any time at the discretion of the board of directors. Of the options granted on 1 October 2006, S J Fletcher and CS Malthouse have been granted 10 options each.

All options lapse, to the extent not already exercised, on the expiry of the fourth anniversary of the date of the grant.

### 12. Other reserves

	<b>Period from 5 Jan 06 to 31 Mar 07 £</b>
<b>Shares to be issued:</b>	
Subscription monies received	<b>78,000</b>
	<hr/> <hr/>

During the year the company received subscription monies totalling £78,000 in exchange for beneficial interests totalling 51% of the company's ordinary share capital, in shares to be issued at a later date.

### 13. Reconciliation of movements in shareholders' funds

	<b>31 Mar 07 £</b>
Profit for the financial period	<b>2,428</b>
New ordinary share capital subscribed	<b>1,000</b>
Subscription monies received	<b>78,000</b>
	<hr/>
Net addition to shareholders' funds	<b>81,428</b>
	<hr/>
Closing shareholders' funds	<b>81,428</b>
	<hr/> <hr/>

## Notes to the Financial Statements

### 14. Notes to the statement of cash flows

#### Reconciliation of operating profit to net cash outflow from operating activities

	Period from 5 Jan 06 to 31 Mar 07 £
Operating profit	2,997
Increase in debtors	(97,353)
Increase in creditors	80,240
	<hr/>
Net cash outflow from operating activities	<b>(14,116)</b> <hr/> <hr/>

#### Reconciliation of net cash flow to movement in net funds

	31 Mar 07 £
Increase in cash in the period	13,884
	<hr/>
Movement in net funds in the period	<b>13,884</b> <hr/> <hr/>
Net funds at 5 January 2006	–
	<hr/>
Net funds at 31 March 2007	<b>13,884</b> <hr/> <hr/>

#### Analysis of changes in net funds

	At 5 Jan 2006 £	Cash flows £	Other changes £	At 31 Mar 2007 £
Net cash:				
Cash in hand and at bank	–	13,884	–	13,884
	<hr/>	<hr/>	<hr/>	<hr/>
Net funds	–	13,884	–	13,884
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## **Notes to the Financial Statements**

### **15. Ultimate controlling party**

The directors consider ANS Group plc to be the ultimate controlling party by virtue of its 49% beneficial interest in the company when combined with the beneficial interests of directors common to ANS Group plc and the company.

## **PART IV**

### **ADDITIONAL INFORMATION**

#### **1. Responsibility**

- 1.1 The Company and the Directors, whose names appear on page 8 of this document, accept responsibility, both individually and collectively, for the information contained in this document. To the best of the knowledge of the Company and 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 there is no omission likely to affect the import of such information.
- 1.2 CLB accepts responsibility for its report set out in Part III of this document. To the best of the knowledge of CLB (which has taken all reasonable care to ensure that such is the case), the information contained in that report is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### **2. Incorporation, Registration and Re-registration**

- 2.1 The Company was incorporated and registered in England and Wales on 5 January 2006 under the Act as a private company limited by shares with the name Smart Identity Limited and with registration number 5667178. On 19<sup>th</sup> July 2007, the Company re-registered as a public limited company under the name of Smart Identity plc.
- 2.2 The principal legislation under which the Company operates is the Act and regulations made thereunder. The liability of the Company's members is limited.
- 2.3 The Company's registered office and principal place of business is at Suite B, Synergy House, Manchester Science Park, Manchester M15 6SY.
- 2.4 The Company does not have any subsidiaries.
- 2.5 The principal activity of the Company is that of a software developer specialising in identity management solutions.

#### **3. Share Capital of the Company**

- 3.1 On incorporation, the authorised and issued share capital of the Company was £1,000 divided into 1,000 ordinary shares of £1 each, and held by the subscribers to the Company's memorandum of association in the following proportions:

Christopher Simon Malthouse: 510  
ANS: 490.

- 3.2 Mr. Malthouse subsequently transferred his shares to ANS and SMARTiD became a single member company.

- 3.3 On 18 July 2007, by or pursuant to resolutions of the Company passed on that date:
- 3.3.1 the authorised share capital of the Company was consolidated into 10 ordinary shares of £100 each;
- 3.3.2 the Company's authorised share capital was then increased by £999,000 beyond its registered capital of £1,000 by the creation of 9,990 ordinary shares of £100 each.
- 3.4 In preparation for the Company's conversion to plc status, a further 990 ordinary shares of £100 each were issued for cash previously paid to the Company.
- 3.5 On 18 July 2007, by or pursuant to a resolution passed on that date, the Company's existing authorised share capital of £1,000,000 was sub-divided into 100,000,000 ordinary shares of £0.01.

As a consequence, the issued share capital of the Company became 10,000,000 Ordinary Shares, all of which were fully paid up, with the exception of 3,800,000 shares which are paid up as to one quarter of their nominal value.

- 3.6 At the AGM, in addition to the ordinary business, the Directors were authorised to:
- 3.6.1 allot relevant securities up to an aggregate nominal amount of the amount from time to time of the Company's authorised but unissued share capital;
- 3.6.2 exercise such power free of statutory pre-emption rights in respect of (a) allotments pursuant to the Placing and (b) allotments of equity securities up to an aggregate nominal amount of £100,000; [and]
- 3.6.3 make market purchases of up to 3,000,000 Ordinary Shares at a price between 90% and 110% of the middle market price (as defined by PLUS) for a period of 18 months or, if earlier, until the conclusion of the next annual general meeting of the Company; and
- 3.6.4 increase the limit imposed by the Company's articles of association on the aggregate ordinary remuneration of the Directors from £100,000 per annum to £500,000 per annum.
- 3.7 The Company's authorised and issued share capital at the date of this document is and it is expected to be immediately following Admission:

	<i>At the date of this document</i>		<i>Following Admission</i>	
	<i>Amount (£)</i>	<i>Number of Ordinary Shares</i>	<i>Amount (£)</i>	<i>Number of Ordinary Shares</i>
Authorised	1,000,000	100,000,000	1,000,000	100,000,000
Issued (fully paid)	62,000	6,200,000	87,000	8,700,000
Issued (partly paid – 25%)	38,000	3,800,000	38,000	3,800,000

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

### **4.1 Memorandum of Association**

The objects of the Company are set out in full in clause 4 of its memorandum of association and include the carrying on of business as a general commercial company and to carry on any trade or business of any description which may seem to the Company capable of being advantageously carried on in connection with or ancillary to or which is calculated directly or indirectly to benefit or enhance the value or render more profitable any of the property rights or business of the Company.

### **4.2 Articles of Association**

The Articles which were adopted pursuant to a resolution of the Company passed on 26<sup>th</sup> July 2007 contain provisions, *inter alia*, to the following effect:

#### *4.2.1 Voting rights*

Subject to any special rights or restrictions as to voting attached to any shares by or in accordance with the Articles, on a show of hands every member who is present in person or by proxy not being himself a member shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Company's register of members in respect of the share.

No member shall, unless the Directors otherwise determine, be entitled to vote at any general meeting or at any separate meeting of the holders of any class of shares in the Company either personally or by proxy, or to exercise any privilege as a member, unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.

#### *4.2.2 Dividends and other distributions*

The profits of the Company available for dividend and resolved to be distributed shall be applied in the payment of dividends to the Company's members in accordance with their respective rights and priorities. The Company in general meeting may declare dividends accordingly.

Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid-up on the shares in respect whereof the dividend is paid, but no amount paid-up on a share in advance of calls shall be

treated as paid-up on the share. All dividends shall be apportioned and paid pro rata according to the amount paid-up on the shares during any portion or portions of the period in respect of which the dividend is paid, except that if any share is issued on terms providing that it shall carry any particular rights as to dividend, such share shall rank for dividend accordingly.

The Directors may if they think fit, from time to time, pay to the members such interim dividends as appear to the directors to be justified by the profits of the Company and are permitted by the Act. The Directors may also pay half yearly, or at other suitable intervals to be settled by them any dividend which may be payable at a fixed rate if they are of opinion that the profits justify the payment and if and to the extent that such payment is permitted by the Act.

The Directors may retain the dividends payable upon shares in respect of which any person is, under the provisions as to the transmission of shares, entitled to become a member, or which any person is under those provisions entitled to transfer, until such person shall become a member in respect of such shares or shall transfer the same.

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. Any dividend which has remained unclaimed for a period of twelve years from the date of declaration shall at the expiration of that period be forfeited and cease to remain owing by the Company and shall belong to the Company absolutely.

Subject to certain provisions, the Directors may, if authorised by an ordinary resolution of the Company, offer any holders of Ordinary Shares the right to elect to receive Ordinary Shares, credited as full paid, instead of cash in respect of the whole (or a sum part, to be determined by the Directors) of any dividend specified by the ordinary resolution. The provisions which apply in such circumstances are set out in Articles 155(a) to (g) (both inclusive).

#### 4.2.3 *Share transfers*

All transfers of shares shall be effected in the manner authorised by the Stock Transfer Act 1963.

The instrument of transfer shall be signed by or on behalf of the transferor (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered on the register of members in respect of such shares.

The Directors may decline to recognise any instrument of transfer, unless the duly stamped instrument of transfer:

- (a) is in respect of only one class of shares;

- (b) is deposited at the Company's registered office or such other place as the directors may appoint;
- (c) is accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;
- (d) is in favour of not more than four transferees; and
- (e) is in respect of a share in respect of which all sums presently payable to the Company have been paid.

#### 4.2.4 *Changes in share capital*

The Company may from time to time by ordinary resolution increase its capital, consolidate and divide all or any of its share capital into shares of a larger amount, sub-divide all or any of its shares into shares of a smaller amount and cancel any shares not taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

The Company may by special resolution reduce its share capital and any capital redemption reserve and any share premium account in any manner subject to the provisions of the Act.

#### 4.2.5 *Changes in class rights*

Subject to the provisions of the Act, if at any time the capital of the Company is divided into different classes of shares, the rights attached to any class may be varied or abrogated, whether or not the Company is being wound up, either (a) in such a manner (if any) as may be provided by such rights or (b) in the absence of any such provision with the consent in writing of the holders of 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 the holders of the shares of the class, but not otherwise. To every such separate meeting all the provisions of these Articles relating to general meetings of the Company or to the proceedings thereat shall, so far as appropriate and with the necessary modifications, apply, except that the necessary quorum at any such meeting other than an adjourned meeting shall be two persons at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class in question and at an adjourned meeting one person holding shares of the class in question or his proxy and that any holder of shares of the class in question present in person or by proxy may demand a poll.

#### 4.2.6 *Allotment of shares*

- (a) The Directors have general and unconditional authority (limited in time as provided in the Articles) to allot any relevant securities ("the term "relevant securities" having the meaning ascribed

thereto by section 80 of the Act and references to the allotment of relevant securities shall be construed in the same manner as in that section) up to the maximum amount of the authorised but unissued share capital of the Company at the date on which the Articles were adopted or such other amount as may be laid down from time to time by the Company in general meeting. Subject to section 80(7) of the Act the authority conferred by that Article shall expire five years from the date of the adoption of the Articles unless renewed (with or without variation) by the Company in general meeting at any time and from time to time before or after the date on which it would otherwise have expired.

- (b) The Company may at any time and from time to time prior to the expiry of the authority conferred by the Article described at subparagraph 4.2.6(a) above (or any renewal of that authority) make any offer or agreement which would or might require relevant securities to be allotted after such expiry.
- (c) The Directors have power to allot equity securities (the term “equity securities” having the meaning ascribed thereto by Section 94(2) of the Act and references to the allotment of equity securities shall be construed in the same manner as in Section 94(3) of the Act) pursuant to the authority conferred by Article 6(A) (or to any renewal thereof) as if section 89(1) of the Act did not apply to such allotment and the Company may at any time prior to the expiry of such power conferred (or any renewal thereof) make any offer or agreement which would or might require equity securities to be allotted after such expiry. Provided that the power thereby granted shall expire at the conclusion of the Annual General Meeting of the Company next succeeding the adoption of the Articles unless renewed (with or without variation) by the Company by special resolution at any time and from time to time before or after the date on which it would otherwise have expired. In addition, such power should be limited:
  - (a) to the allotment of equity securities in connection with any invitation made concurrently to holders of Ordinary Shares to subscribe by way of rights in the same proportions (as nearly as may be) for further shares;
  - (b) to the allotment of equity securities for the purpose of any option, incentive or profit sharing scheme (whether or not an employees’ share scheme as defined in the Act) being a scheme approved by the Company; and
  - (c) to the allotment (otherwise than pursuant to paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount laid down from time to time by the Company by special resolution.
- (d) Except as otherwise provided in the Articles or otherwise directed by the Company in general meeting, all unissued shares (whether

forming part of the original or any increased capital) which the Directors are authorised (by the Articles or otherwise) to allot shall be at the disposal of the Directors who may allot, grant options over, offer or otherwise deal with or dispose of them to such persons, at such times and generally on such terms and conditions as they may determine.

#### 4.2.7 *Directors*

##### (a) *Constitution of board of Directors*

Subject to the passing of an ordinary resolution from time to time, the minimum number of Directors shall not be less than two but no more than eight.

##### (b) *Interests in contracts and other arrangements*

A Director who is in any way, whether directly or indirectly, interested in a contract, transaction or arrangement or a proposed contract, transaction or arrangement with the Company shall declare the nature of his interest at a meeting of the Directors in accordance with section 317 of the Act.

A Director shall not vote in respect of any contract or arrangement or any other proposal in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities or rights of or otherwise in or through the Company. However, a Director shall be entitled to vote in respect of any contract or arrangement or any other proposal in which he has any interest which is not material. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

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

- (i) the giving of any security, guarantee or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part by the giving of security or under a guarantee or indemnity;
- (iii) any proposal concerning an offer for subscription or purchase of shares or debentures or other securities or rights of or by the Company or any of its subsidiaries or of

any other company which the Company may promote or in which it may be interested in which offer he is or is to be interested as a participant in the underwriting or sub underwriting thereof;

- (iv) any proposal concerning any other company in which he is interested directly or indirectly and whether in any one or more of the capacities of officer, creditor, employee or holder of shares, debentures, securities or rights of that other company, but where he is not the holder (otherwise than as a nominee for the Company or any of its subsidiaries) of or beneficially interested in 1% *or* more of the issued shares of any class of such company or of any third company through which his interest is derived or of the voting rights available to members of the relevant company (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances);
- (v) any proposal concerning the adoption, modification or operation of a superannuation fund, retirement benefits scheme, share option scheme or share incentive scheme under which he may benefit; or
- (vi) any proposal concerning the purchase and/or maintenance of any insurance policy under which he may benefit.

(c) *Remuneration, pensions and other benefits*

The aggregate ordinary remuneration of the Directors shall not exceed £100,000 per annum or such higher sum as may from time to time be determined by an ordinary resolution of the Company. The Company by ordinary resolution may also vote extra remuneration to the Directors, which shall, in default of agreement to the contrary, be divided between the Directors equally. The Directors' remuneration shall be deemed to accrue from day to day. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with the business of the Company, or in attending and returning from meetings of the Directors or of committees of the Directors or general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

Any Director who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a director, may be paid such extra remuneration by way of salary, lump sum, percentage profits or otherwise as the Directors may determine.

(d) *Borrowing powers*

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

(e) *Retirement and Re-appointment*

Subject to the provisions of the Articles, at the annual general meeting in every year one third of the Directors who are subject to retirement by rotation, or, if their number is not three or a multiple of three, the number nearest to but not exceeding one third shall retire from office provided always that if in any year the number of Directors who are subject to retirement by rotation shall be two, one of such Directors shall retire, and if in any year there shall be only one Director who is subject to retirement by rotation, that Director shall retire. A Director retiring at a meeting as aforesaid shall, if he is not reappointed, remain in office until the meeting appoints someone in his place, or if it does not do so, until the end of that meeting.

Subject to the provisions of the Act and of the Articles, the Directors to retire in every year shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for reelection. Any further Directors so to retire shall be those who have been longest in office since their last appointment or reappointment but as between persons who become or were last reappointed Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Subject as aforesaid, a retiring Director shall be eligible for reappointment.

4.2.8 *General meetings*

An annual general meeting shall be held once a year, within 15 months of the previous annual general meeting.

Subject to a member's right to requisition an extraordinary general meeting pursuant to section 368 of the Act, general meetings of the Company are convened at the discretion of the Board, and with the exception of the annual general meeting, all such general meetings of the Company shall be extraordinary general meetings.

An annual general meeting and a general meeting for the passing of special resolution shall be called by 21 days' notice at the least, in writing to its members, and all other general meetings shall be called by 14 days' notice at the least.

Every notice shall be in writing and shall specify the place, the day and the time of the meeting, and in the case of special business the general nature of the business, and in the case of an annual general meeting shall specify the meeting as such. Notices shall be given in the manner provided in the Articles to all of the Company's members other than those who under the provisions of the Articles or the conditions of issue of the shares held by them are not entitled to receive the notice, to the directors (including the alternative directors) and to the auditors for the time being and (where required by the Act) former auditors of the Company.

In every notice calling a meeting of the Company there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a member.

4.2.9 *Distribution of assets on a winding up*

In the event of the Company being wound up (whether the liquidation is altogether voluntary, under supervision or by the court), the liquidator may, with the authority of an extraordinary resolution and any other sanction required by the Act, divide among the members in specie the whole or any part of the assets of the Company (whether or not the assets shall consist of property of one kind or of different kinds). The liquidator may for such purposes set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may also vest any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator may think fit.

**5. Interests of Directors and Other Interests**

1.1 As at the date of this document and immediately following Admission the interests in shares (as defined in section 820 of the Companies Act 2006) of the Directors (all of which are beneficial) including persons connected with them (within the meaning of section 346 of the Act) in the issued share capital of the Company (including interests of family members (as "family" is defined in the PLUS Rules)), the existence of which is known or which could, with reasonable diligence, be ascertained by a Director, and following Admission, will be, as follows:

<i>Director</i>	<i>Current</i>		<i>Following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Existing Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
Scott Jonathan Fletcher*	1,100,000	11%	1,100,000	8.8%
Christopher Simon Malthouse*	350,000	3.5%	350,000	2.8%
Derek Henry McDermott	500,000	5%	500,000	4%

\* In addition, these Directors are deemed to be interested in the 3,900,000 Ordinary Shares beneficially owned by ANS by virtue of their respective shareholdings in, and directorships, of ANS.

- 5.2 In addition, the following Directors have been granted options (under an unapproved scheme) to subscribe for the following numbers of Ordinary Shares in the capital of the Company at the following prices in substitution for former options granted in 2006:

<b>Director</b>	<b>Number of Ordinary Shares</b>	<b>Price per share</b>
Scott Jonathan Fletcher	770,000	5p
Christopher Simon Malthouse	100,000	5p

In addition, an option to subscribe for 100,000 Ordinary Shares at a price of 5p per share has been granted to an employee of the Company.

Subject to the satisfaction of certain conditions, which are different for each grantee, the options are exercisable on the occurrence of a change of control of the Company, the admission of its share capital to trading on AIM or on the Official List of the London Stock Exchange or if earlier, on either specified dates or dates determined by the Board.

- 5.3 In respect of each Director there are no conflicts of interest between any duties they have to the Company and the private interests and/or other duties they may also have.
- 5.4 There are no outstanding loans granted by any member of the Company to the Directors, nor any guarantees provided by any member of the Company for the benefit of the Directors.
- 5.5 Save as is referred to elsewhere in this document, no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Company and which was effected by the Company during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

## **6. Additional Information on the Directors**

- 6.1 Other than their directorships of the Company, the Directors currently hold the following directorships, and have held the following directorships within the five years prior to the date of this document, and Derek McDermott is a partner in the following partnership:

<i>Director</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
Scott Jonathan Fletcher	Applied Micro Systems (UK) Limited (company number: 3339904) ANS Group plc (company number: 3176761) Associated Network Solutions Ltd (company number: 6060778)	Smartportal Limited (company number: 4356242) (dissolved on 27 July 2004) Netcare Computers Limited (company number: 3680444) (dissolved on 16 July 2002) Square Heads Down Ltd (company number: 5469796) (dissolved on 6 February 2007)
Christopher Simon Malthouse	P.W.Malthouse Ltd (company number: 4944857) Business Integrated Operating Systems Limited (company number: 4125206) ANS Group plc (company number: 3176761) Applied Micro Systems (UK) Limited (company number: 3339904)	Spare A Thought Ltd (5025789)
Derek Henry McDermott	Health Intelligence Ltd (company number: 3257228) Fileoptimise Limited (company number: 5928634) I-Logik Software Limited (company number: 5531031)	ISL Biometrics Limited (company number: 1655171) (dissolved on 5 January 2006)

Derek McDermott is a partner of Cornerstone (having its principal place of business at Cornerstone House, 27 Stuarts Green, Stourbridge, West Midlands DY9 0XR). Neither Scott Fletcher nor Christopher Malthouse has been a partner in any firms or partnerships within the five years prior to the date of this document.

6.2 Save as disclosed in paragraph 6.3 of Part IV of this document, none of the Directors have:

- 6.2.1 any unspent convictions in relation to indictable offences;
- 6.2.2 had any bankruptcy order made against him or entered into any voluntary arrangement;
- 6.2.3 been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors

generally or any class of its creditors, whilst he was a director of that company or within the 12 months after he had ceased to be a director of that company;

- 6.2.4 been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement, whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - 6.2.5 been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - 6.2.6 been officially publicly criticised, incriminated or sanctioned by any statutory or regulatory authorities (including designated professional bodies); or
  - 6.2.7 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 a company.
- 6.3 ISL Biometrics Limited (“**ISL**”), a company of which Derek McDermott was a director, was placed into administration on 1 October 2004 following an application for the appointment of an administrator made by the directors of ISL. The statement of affairs reveals a total of five creditors entries totalling £205,664. ISL was dissolved on 5 January 2006 with an estimated total deficiency as regards creditors of £205,664 and an estimated deficiency as regards members of £877,405.
- 6.4 Save as disclosed in this document, no Director has or has had any interest in any transaction which is or was significant in relation to the business of the Company and which was effected during the current or immediately preceding financial period or which was effected during an earlier financial period and remains outstanding or unperformed.

## **7. Directors’ Service Agreements and Emoluments**

- 7.1 The Company has entered into the agreements described in paragraphs 7.1.1 to 7.1.3 inclusive below:
  - 7.1.1 a service agreement between (1) the Company and (2) Scott Fletcher. The service agreement provides that Scott Fletcher shall serve the Company as an executive director and his appointment is terminable by either party on six months’ written notice. The service agreement provides for an initial salary of £12,000 per annum reviewable on an annual basis. The service agreement also provides for the payment of such bonuses and the provision of such benefits as the Board in its absolute discretion may from time to time determine. The service agreement contains restrictive covenants for a period of six months following termination of employment and additional restrictions which are expressed to apply after termination of employment without restriction of time; and

- 7.1.2 a service agreement between (1) the Company and (2) Christopher Malthouse. The service agreement provides that Christopher Malthouse shall serve the Company as an executive director and his appointment is terminable by either party on six months' written notice. The service agreement provides for an initial salary of £12,000 per annum reviewable on an annual basis. The service agreement also provides for the payment of such bonuses and the provision of such benefits as the Board in its absolute discretion may from time to time determine. The service agreement contains restrictive covenants for a period of six months following termination of employment and additional restrictions which are expressed to apply after termination of employment without restriction of time;
- 7.1.3 a consultancy agreement between (1) the Company and (2) Cornerstone for the provision of the services of Derek McDermott. The services to be provided include attendance at all meetings of the Board and of the Company's members from time to time (and in any event, the attendance at a minimum of one meeting per month (subject to Derek McDermott being given reasonable notice)), together with such additional time (if any) as may be necessary for the proper performance of those services. The consultancy agreement provides that the engagement of Cornerstone by the Company will continue unless and until terminated pursuant to the terms of that agreement, or by each party giving to the other not less than three months' prior written notice. Cornerstone will charge a consultancy fee of £600 (exclusive of VAT (if applicable)) per month. The Company will also reimburse Mr. McDermott for reasonable out of pocket expenses.
- 7.2 Save as set out in paragraph 7.1 of this Part IV, there are no service contracts between any of the Directors and the Company and no such contract has been entered into or amended or replaced within the six months preceding the date of this document.
- 7.3 Save as disclosed in this document, the Directors receive no Ordinary Shares or options over Ordinary Shares in lieu of remuneration or as any form of compensation.
- 7.4 There is no arrangement under which any Directors have waived or agreed to waive future emoluments.
- 7.5 Save as disclosed in this paragraph 7, there are no existing or proposed service or consultancy agreements between any Director and any member of the Company.
- 7.6 In the period ended 31 March 2007, the fees paid to Cornerstone were £5,891 and management charges totalling £35,000 (including an element for the services of Scott Fletcher and Christopher Malthouse) were paid to ANS. Under the arrangements described in paragraph 7.1 of this Part IV, the payments to Cornerstone, Mr. Fletcher and Mr. Malthouse are estimated to be £22,000 in aggregate for the year ending 31 March 2008.

## 8. Substantial Shareholders

- 8.1 Insofar as is known to the Company and in addition to the holdings of the Directors disclosed in paragraph 3 above, the following persons are, as at the date of this document, and are expected (based on the information available as at the date of this document), immediately following Admission, to hold directly or indirectly 3% or more of the Enlarged Share Capital:

<i>Shareholder</i>	<i>Current</i>		<i>Following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Existing Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
ANS	3,900,000	39%	3,900,000	31.2%
Paul Sweeney	500,000	5%	500,000	4%
Nigel Wray	500,000	5%	625,000	5%
Len Findlay	500,000	5%	500,000	4%
Luke Heron	500,000	5%	500,000	4%
Chris Pitsillidis	500,000	5%	500,000	4%
Rivington Street Holdings Limited	1,000,000	10%	1,000,000	8%
Aberdeen Asset Management			666,667	5.3%
Singer and Friedlander			733,333	5.8%

- 8.2 None of the Company's major holders of Ordinary Shares listed above has voting rights which differ from those of the other holders of Ordinary Shares.
- 8.3 Save as disclosed in paragraph 5.1 above and in this paragraph 8, and insofar as the Company has the information, the Directors are not aware of any person or persons who either alone or, if connected jointly following the implementation of the Placing and Admission, is or will be holding directly or indirectly 3% or more of the Enlarged Share Capital.
- 8.4 Save as disclosed in paragraph 5.1 above and in this paragraph 8, and insofar as the Company has the information, the Directors are not aware of any person or persons who either alone or, if connected jointly following the implementation of the Placing and Admission, will (directly or indirectly) exercise or could exercise control over the Company.

## 9. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company within the two years immediately preceding the date of this document and are, or may be, material or do, or may, contain provisions under which the Company has an obligation or entitlement which is material:

- 9.1 a Placing Agreement dated 26 July 2007 made between (1) LCC, (2) the Company and (3) the Directors in which LCC agreed to use its reasonable endeavours to procure Placees for the Placing shares at the Placing price as agent for the Company, subject to a number of conditions. Under the Placing Agreement, LCC became entitled to a corporate advisory fee of 3% of the gross proceeds of the Placing;
- 9.2 an agreement dated 27<sup>th</sup> June 2007 made between (1) LCC and (2) the Company, whereby LCC agreed to act as PLUS corporate advisor to the Company for a fee of £13,000 plus VAT together with an annual retainer of £10,000 plus VAT for a minimum period of twelve months from Admission. Subsequently, the agreement is terminable on 3 months' written notice;
- 9.3 an IPR Assignment dated 26<sup>th</sup> July 2007 made between (1) ANS and (2) the Company pursuant to which ANS has agreed to assign to the Company its rights in, *inter alia*, (i) the identity management software that it has developed and accompanying documentation, (ii) the DIS software (known as "Codename Melody" written to Departmental Interface Server (DIS) Government Unit Specification and Approval Certification process which ANS acquired from Etude Products Limited), (iii) the associated rights in patent applications, (iv) a number of unregistered trade marks and (v) the domain name [www.smartidentity.co.uk](http://www.smartidentity.co.uk). Subject to what follows, the Company has agreed to pay to ANS by way of consideration the sum of £100,000, which is payable in annual instalments equal to 10% of the Company's annual turnover in each relevant year ("year" meaning each period of twelve months from 1 April to 31 March). In the event that the Company has not paid the total consideration of £100,000 to ANS by the end of the fifth year, then any outstanding balance will become due and payable no later than thirty days after the end of that fifth year. The assignment contemplated by that agreement is conditional on such consideration being paid in full. However, the Company has the benefit of an exclusive and unrestricted licence to, *inter alia*, use, sell and develop the intellectual property rights covered by that agreement until such time as its obligations in respect of payment have been discharged in full;
- 9.4 an agreement for office and administration support services dated 26<sup>th</sup> July 2007 made between (1) ANS and (2) the Company pursuant to which the Company will pay a fee of £3,300 (plus VAT) per calendar month to ANS for various office and administrative support services provided by ANS. Those services will include various back office services, such as payroll administration, shared information technology (including, but not limited to ANS's e-mail system, IT network and internet connection, provided that this right shall be limited to a maximum of five named users) and telephone facilities (including the mobile phone system from time to time selected by ANS, provided that if the Company requires use of any more than one mobile phone handset, there shall be an additional charge of £25 per handset per calendar month), marketing support services (up to a maximum of one business day per calendar month with any time expended by ANS in excess of such time period incurring a charge of £200 per day) and postage handling. That agreement also obliges ANS to procure the benefit of its insurance cover for the Company. The agreement has a minimum term of one year and thereafter can be terminated by either party on three months' written notice; and

- 9.5 a licence to occupy part of Suite B, Second Floor, Synergy House, Guildhall Close, Manchester Science Park, Manchester M15 6SY dated 26<sup>th</sup> July 2007 made between (1) ANS and (2) the Company pursuant to which, in consideration of the obligations undertaken by the Company (including payment of the monthly licence fee of £500 (exclusive of VAT), ANS grants to the Company the personal right throughout the licence period commencing on the date of that agreement and expiring on its first anniversary to use such property in accordance with the provisions of the licence so granted. The licence may be determined on one month's notice given by either party during the licence period, or by three months' notice given by either party at any time after the end of the licence period, or with immediate effect if at any time the Company breaches any of its obligations under the licence.

## **10. UK Taxation**

### *10.1 Introduction*

The information in this section is based on the Directors' understanding of current tax law and HMRC practice. The following should be regarded as a summary and should not be construed as constituting advice. Prospective Shareholders are strongly advised to take their own independent tax advice but certain potential tax benefits are summarised below in respect of an individual resident in the UK for tax purposes.

The following paragraphs are intended as a general guide only for Shareholders who are resident and ordinarily resident in the UK for tax purposes and who hold Ordinary Shares as investments and not as securities to be realized in the course of a trade. They do not purport to be comprehensive nor to describe all potential relevant considerations. They are based on current legislation and HMRC practice. Any Shareholder or prospective purchaser of Placing Shares who is in any doubt about his tax position or who is subject to taxation in a jurisdiction other than the UK should consult his own professional adviser immediately.

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

No stamp duty or stamp duty reserve tax is payable on the issue of the Placing Shares.

Any subsequent disposal of the Placing Shares will generally give rise to payment of ad valorem stamp duty on the transfer document at the rate of 0.5p per £1, or part, on the amount or value of the consideration paid, subject to a minimum duty of £5. Paperless transfers are generally subject to stamp duty reserve tax (unless, in general, the transfer of the relevant shares is duly stamped with ad valorem duty), generally at the rate of 0.5% of the amount or value of the consideration paid. Liability to pay any stamp duty or stamp duty reserve tax is generally that of the transferee or purchaser. Where a purchase or transfer is effected through a member of the London Stock Exchange or a qualified dealer, the member or dealer will normally account for the collection and payment of the tax, but in all other cases the transferee or purchaser must account for the tax to HMRC.

Persons operating clearance services or depositary receipt schemes may be required to account for stamp duty and stamp duty reserve tax at rates higher than those referred to above.

### *10.3 Taxation of chargeable gains*

A subsequent disposal of the Placing Shares by persons resident or ordinarily resident in the UK in a tax year which gives rise to gains may be liable to capital gains tax (individuals and trustees) and corporation tax (companies). Liability to tax and the rate of tax will depend on the Shareholder's circumstances and the availability of exemptions or allowable losses.

Indexation allowance, which increases the acquisition cost of an asset in line with the rise in the retail price index, is available for corporate Shareholders during the period of ownership.

Individual Shareholders and trustees (but not corporate Shareholders) might benefit from taper relief. 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.

Individuals and certain trusts have an overall annual exemption from capital gains tax for the first £9,200 of chargeable gains in the current tax year. Settlements have an equivalent exemption of up to £4,600 in the current tax year.

Generally, losses realised on the disposal of assets may be set against other gains made during the tax year or carried forward and set against gains in future tax years.

Different tax treatment applies to persons who trade in securities.

Persons who are neither resident nor ordinarily resident in the UK will not normally be liable to tax in the UK in respect of any gain accruing to them on a disposal of the Placing Shares. The terms of a relevant double taxation treaty may apply to persons with dual residence.

#### *10.4 Taxation of dividends*

When a company pays a dividend it is not required to withhold tax at source. A notional tax credit equal to 10% of the dividend and the associated notional tax credit attaches to a dividend; i.e. the tax credit is equivalent to one ninth of the dividend paid.

Individual Shareholders resident in the UK who pay tax at the lower or basic rate only, which in respect of dividend income is 10%, have no further tax liability in respect of the dividend. Individual Shareholders resident in the UK who pay tax at the higher rate pay tax in respect of dividend income at 32.5% on the dividend received and the associated notional tax credit, but will be able to offset the tax credit against such liability. The tax liability therefore arising to a higher rate tax payer represents 22.5% of the dividend and associated notional tax credit, which equates to 25% 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.

Whether individual Shareholders who are not resident in the UK for tax purposes (other than Commonwealth citizens, EEA nationals, residents of the Channel Islands or the Isle of Man and certain other categories of Shareholders who are entitled to a tax credit on

dividends received as if they were resident in the UK) are entitled to claim the whole or any part of any tax credit in respect of a dividend will usually depend on the terms of any applicable double tax treaty between the UK and their jurisdiction of residence. Such Shareholders may be subject to tax on such dividends in their jurisdiction of residence and should consult their own professional advisers.

UK resident corporate Shareholders (other than share dealers) are not normally liable to corporation tax on any UK dividends received.

For dividends paid to trustees of UK resident discretionary or accumulation trusts, the gross dividend will be subject to UK income tax at the rate applicable to trusts of 32.5%. 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.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident.

These comments are intended only as a general guide to the current tax position in the UK as at the date of this document. The comments assume that Placing Shares are held as an investment and not as a trading asset. The levels and basis of taxation can change. The value of a relief from taxation depends upon the circumstances of the taxpayer. If you are in any doubt as to your tax position, you should contact your professional adviser without delay.

## **11. Working Capital**

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

## **12. Litigation**

Since incorporation, the Company has not been and is not currently engaged in any governmental, legal or arbitration proceedings which may have or have had in the recent past a significant effect on the profitability or financial position of the Company nor are the Directors aware of any such proceedings which are pending or threatened against the Company.

## **13. Significant Changes**

Save as disclosed in Part 1 of this document, there has been no significant change in the financial or trading position of the Company since 31 March 2007, the date to which the most recent financial information on the Company has been prepared as set out in Part III of this document.

## **14. General**

- 14.1 The financial information contained in this document does not comprise statutory accounts for the purposes of section 240 of the Act.
- 14.2 The financial information contained in this document has been prepared in accordance with UK law and accounting standards and the Directors accept responsibility for such financial information.
- 14.3 The total expenses, of or incidental to, the Placing and Admission payable by the Company are estimated to amount to £110,000 (including VAT and commission of 3% of the gross funds raised under the Placing).
- 14.4 Assuming full subscription under the Placing, the total gross proceeds expected to be raised by the Placing is £750,000. The estimated net proceeds accruing to the Company, assuming full subscription under the Placing, after deductions of commissions and expenses (including VAT) are £640,000.
- 14.5 CLB have given and not withdrawn their written consent to the issue of this document with the inclusion in it of their report and their name and references thereto in the form and context in which they appear.
- 14.6 LCC has given and not withdrawn its written consent to the issue of this document with references to its name in the form and context in which it appears.
- 14.7 The accounting reference date of the Company is 31<sup>st</sup> March and it is expected that its next statutory audited accounts will be drawn up to 31<sup>st</sup> March 2008.
- 14.8 The nominal value of each Placing Share is 1 penny and they are being placed at 30p per Placing Share, giving a premium of 29p per Placing Share.
- 14.9 Save for the intended application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made, nor are there intended to be any other arrangements for dealings in the Ordinary Shares.
- 14.10 This document has been prepared in accordance with current UK tax legislation, practice and concession and interpretation thereof. Such legislation and practice may change and the current interpretation may therefore no longer apply.
- 14.11 As at the date of this document, the Company has no principal investments in progress and there are no future principal investments on which the Company has made a firm commitment.
- 14.12 The Directors are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for at least the current financial year.
- 14.13 The Directors are not aware of any exceptional factors that have influenced the Company's activities.
- 14.14 Save as disclosed in this document, no person (other than the professional advisers referred to in this document) has received, directly or indirectly, from the Company or has entered into a contractual arrangement to receive, directly or indirectly, from

the Company on or after the date of this document, fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price or any other benefit to the value of £10,000 or more in respect of services provided to the Company during the period between incorporation of the Company and the date of this document.

14.15 The Directors will apply for the Existing Ordinary Shares and the Placing Shares to be admitted to CREST with effect from Admission. Accordingly, it is expected that the Existing Ordinary Shares and the Placing Shares will be enabled for settlement in CREST following Admission.

## **15. Availability of Document**

Copies of this document are available free of charge from the offices of LCC at 3<sup>rd</sup> Floor, Henry Thomas House, 5-11 Worship Street, London EC2A 2BH during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) and will remain available on that basis until one month from the date of Admission.