



Intercede Group plc

Placing and Admission to the Alternative Investment Market

by Numis Securities Limited

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This Document contains information given in connection with the proposed placing of 4,636,652 Ordinary Shares in the Company of 25p each at 60p per share. This document, which comprises a prospectus, has been prepared in accordance with the Public Offers of Securities Regulations 1995 ("POS Regulations") and Chapter 16 of the Rules of the London Stock Exchange. A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations.

This document does not constitute an offer to sell, or the solicitation of an offer to buy, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution into the United States, Canada, Australia, the Republic of South Africa or Japan. The Ordinary Shares have not and will not be registered under the applicable securities laws of the United States, Canada, Australia, the Republic of South Africa or Japan and, subject to certain exceptions, may not be offered or sold within the United States, Canada, Australia, the Republic of South Africa or Japan or to any national, resident or citizen of the United States, Canada, Australia, the Republic of South Africa or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.

Copies of this document will be available during normal business hours on any weekday (except Saturdays and public holidays) free of charge to the public at the offices of Numis Securities Limited ("Numis"), Cheapside House, 138 Cheapside, London EC2V 6LH or from the registered office of the Company for 14 days from the date of Admission, which is expected to be 8 January 2001.

INTERCEDE GROUP plc

Incorporated in England and Wales under the Companies Act 1985 (Registered No. 4101977)

Placing of 4,636,652 Ordinary Shares of 25p each at a price of 60p per share Admission to trading on the Alternative Investment Market

Nominated Adviser and Nominated Broker Numis Securities Limited

SHARE CAPITAL IMMEDIATELY FOLLOWING THE PLACING

Authorised		Issued and fully paid		
Number	Nominal amount	Number	Nominal amount	
22,500,000	£5,625,000	16,360,485	£4,090,121.25	
			Ordinary Shares of 25p each	

The Placing Shares will rank *pari passu* in all respects with the existing Ordinary Shares now in issue and will have the right to receive all dividends or distributions declared, made or paid on the Ordinary Shares after the date of this document.

Application has been made for the whole of the share capital of the Company in issue immediately following the Placing to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser. **YOUR ATTENTION IS DRAWN, IN PARTICULAR, TO THE SECTION ENTITLED "RISK FACTORS" IN PART II OF THIS DOCUMENT.**

The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. Further, the United Kingdom Listing Authority has not itself approved the contents of this document. The Ordinary Shares are not being dealt on any other recognised exchange and no other such application has been made.

It is expected that dealings in the Ordinary Shares will commence on AIM on 8 January 2001.

The Placing is conditional *inter alia* on Admission taking place before 12 January 2001 (or such later date as Numis and the Company may agree).

All the Directors whose names, addresses and functions appear on page 51, accept full responsibility, both collectively and individually, for the compliance of this document with Chapter 16 of the Rules of the London Stock Exchange. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and makes no omission likely to affect the import of such information. Under no circumstances should the information included in this document be relied upon as accurate at any time after Admission.

Numis, which is regulated by The Securities and Futures Authority Limited, is acting solely as Nominated Adviser and Nominated Broker to Intercede Group plc and will not be responsible to any other person for providing the protections afforded to customers of Numis or for advising on the transactions and arrangements proposed in this document.

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Key Information



Intercede is a leading independent producer of security management software for computers, networks and software applications. It is also a supplier of third party security products and devices.

Intercede's *edefice* software package enables customers to deploy and manage multiple, technically complex security products and technologies from a single console, robustly and with ease.

The IT security products market is forecast to grow by 30% pa from \$3.7 billion to \$10.5 billion between 1999 and 2003 (Source: Datamonitor), and the security management sub-sector of that market is expected to grow by 46% pa to \$1.6 billion in the same period.

Intercede has developed its expertise by working with specialist security product producers and blue chip organisations on existing systems and on early pilot IT security projects. This, together with its long standing partnerships and the interoperability of its software with core security infrastructure technologies such as PKI and smartcards, acts as a barrier to entry for competing producers.

Intercede's customers cover a range of industries and include Barclays Bank, Lloyds TSB, Abbey National, the Department of Trade and Industry, the Department for Education and Employment, the NHS, ICL, Compaq, Kingfisher and Pharmacia & Upjohn.

The Directors believe that Intercede's key strengths are:

- Its position in the UK security management software and systems market
- The quality of its intellectual property, reflected in *edefice*
- The industry expertise and know how of its management and employees, which has been developed over a period of time by working closely with customers across a variety of sectors
- The quality of the Company's customer base, which gives it the high level of credibility necessary to be entrusted with delivering enterprise critical software solutions
- The quality and extent of the Company's trading relationships with a variety of other security product and service providers
- The flexibility of its products across multiple network security products and technologies

The Placing will raise approximately £2.2 million, net of expenses. The Directors believe that, with the development of *edefice* and given the strength of the Company's external relationships, it is well placed to benefit from market growth. To do so will require further investment to provide funds for increasing the number of software development staff, the development of additional UK and international sales channels and the acquisition of complementary businesses.

Placing Statistics

Placing Price	60p
Number of Ordinary Shares in issue on Admission	16,360,485
Market capitalisation at the Placing Price	£9.82 million
Number of Ordinary Shares being placed on behalf of the Company	4,636,652
Value of the Placing Shares at the Placing Price	£2.78 million
Net proceeds of the Placing receivable by the Company	£2.2 million
Percentage of the enlarged issued ordinary share capital being placed	28.34%

Expected Timetable of Principal Events

Cash to be received from subscribers for the Placing Shares	5 January 2001
Admission effective and dealings to commence by	8 January 2001
CREST accounts to be credited by	8 January 2001
Where applicable, share certificates in respect of Placing Shares to be despatched by	15 January 2001

Directors, Secretary and Advisers

Directors:	Richard Arthur Parris Jayne Kathryn Murphy Andrew Michael Walker Jurek Stefan Sikorski Jonathan Louis Hubbard-Ford Gregory John Roediger <i>all of</i>
Registered Office:	Lutterworth Hall St Mary's Road Lutterworth Leicestershire LE17 4PS
Company Secretary:	Andrew Michael Walker
Nominated Adviser and Nominated Broker:	Numis Securities Limited Cheapside House 138 Cheapside London EC2V 6LH
Corporate Finance Adviser to the Company:	Credo Corporate Finance Limited 3rd Floor 33 Margaret Street London W1N 7LA
Reporting Accountants and Auditors:	Arthur Andersen 1 Victoria Square Birmingham B1 1BD
Solicitors to the Company:	Berwin Leighton Adelaide House London Bridge London EC4R 9HA
Solicitors to the Placing:	Pinsent Curtis 3 Colmore Circus Birmingham B4 6BH
Bankers:	Barclays Bank PLC 14 Park Row Nottingham NG1 6EX
Registrars:	Computershare Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH

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

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of the Ordinary Shares issued and to be issued to trading on AIM
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules set out in Chapter 16 of the Rules of the London Stock Exchange
“Board” or “Directors”	the directors of the Company, whose names are set out on page 5 of this document
“CREST”	the relevant system (as defined in the Uncertificated Securities Regulations 1995 (SI 1995 No 95/3272)) for paperless settlement of share transfers and the holding of shares in uncertificated form, in respect of which CRESTCo Limited is the Operator, as defined in such regulations
“Group”	Intercede and its subsidiaries
“London Stock Exchange”	London Stock Exchange plc
“Intercede” or “the Company”	Intercede Group plc and, where the context requires, its subsidiaries
“Numis”	Numis Securities Limited, the Company’s nominated adviser and nominated broker
“Option Plan”	the Intercede share option plan summarised in paragraph 8 of Part IV of this document
“Ordinary Shares”	ordinary shares of 25p each in the capital of the Company
“Overseas Investors”	investors who are resident in, or citizens of, countries other than the United Kingdom
“Placees”	the subscribers for Placing Shares pursuant to the Placing
“Placing”	the placing of the Placing Shares at the Placing Price as described in this document
“Placing Agreement”	the conditional placing agreement dated 5 January 2001 between the Company, the Directors and Numis relating to the Placing, details of which are set out in paragraph 11 of Part IV of this document
“Placing Price”	60p per Ordinary Share, being the price at which Ordinary Shares are being placed pursuant to the Placing
“Placing Shares”	the 4,636,652 new Ordinary Shares to be issued by the Company
“United States”	United States of America, its territories and possessions and any state of the United States of America and the District of Columbia
\$	United States dollar

Glossary of Terms



“Biometric Device”	a device for authenticating a user by unique physical characteristics, eg fingerprints, retina pattern and voice imprints
“CESG”	Communications Electronic Security Group (GCHQ)
“Digital Certificates”	a digital file used to verify a user and sign transactions in a PKI environment. Usually signed by a trusted third party, but may be self-signed
“e-commerce”	commerce conducted electronically
“Firewalls”	an access control device for networks. Firewalls exclude unauthorised users from accessing a network and filter the types of services that an authorised user can access through the device
“IT Security”	the security of computers, networks, software applications, electronically stored information, personal communications devices and the interface between physical access security systems and their associated IT based management systems
“IT”	information technology
“Legacy Applications”	an existing computer application
“m-commerce”	commerce conducted using mobile telecommunication devices
“OEM”	original equipment manufacturer
“PKI”	public key infrastructure, a system for managing digital keys and certificates to facilitate the secure transmission of data
“Smartcards”	a plastic card the size of a credit card featuring a computer processing chip (carrying personal credentials including PKI certificates) used for performing user authentication and transaction security
“Thin Client”	a network computer that accesses applications running on a server. Thin clients have limited processing power compared to personal computers
“Token Device”	a hand held device for calculating one-time dynamic passwords. Usually protected by a personal identification number (PIN)

Introduction

Intercede is a leading independent producer of security management software for computers, networks and software applications. Growing at an estimated 46% pa, this is one of the fastest growing sub-sectors of the IT security market. Intercede's security management software enables multiple, technically complex security products and technologies to be deployed and managed from a single console, robustly and with ease.

Security Products

The Times Newspaper reported on 15 November 2000 that internet security breaches, like those suffered in recent months by Microsoft and Barclays Bank, are costing businesses more than £10 billion a year. Additionally, there is a need to protect intellectual value in knowledge based businesses. Computer security extends beyond business and applies to many other aspects of everyday life including personal finance, legal and medical records and matters relating to national security. New security requirements are also emerging in the m-commerce arena. Information security is thus a major concern for the IT industry, businesses, governments and individual computer users.

The computer industry has responded to these challenges in a number of ways. Technologies and products have been developed to authenticate legitimate computer users, to deny access to unauthorised individuals, to secure confidentiality by encrypting messages, to maintain systems' integrity by eliminating viruses and to electronically sign transactions for purposes of legal non-repudiation.

This wide range of security requirements is being addressed by the use of a variety of technologies including PKI, digital certificates and smartcards. In turn, these technologies require integration with existing computer systems and applications. This is a difficult task, typically approached by the local implementation of disparate products using scarce security specialists. Such systems can be complicated and fragmented and, unless implemented rigorously and properly, may still present security risks. A need has therefore emerged for an easy to use centralised security management system. This is the key business development opportunity currently being exploited by Intercede.

Intercede's brand name for its security management software is trademarked as "edefice". *edefice* is an integrated suite of security management tools that can be configured to provide comprehensive IT security for a wide variety of organisations. It has been developed from Intercede's experience of writing software to facilitate the installation of security systems in its growing customer base.

Intercede has built a number of relationships with software suppliers such as Baltimore Technologies and ActivCard, smartcard manufacturers such as Oberthur, and systems integrators such as Compaq and ICL. The Directors believe that these relationships with industry leaders illustrate Intercede's standing in the market and provide the Company with access to complementary technologies and sales channels to market.

The Market

The market for computer and internet security products is forecast to grow by 30% pa from \$3.7 billion to \$10.5 billion between 1999 and 2003 (Source: Datamonitor). Within this sector the demand for central security management tools is expected to increase even more strongly, by 46% pa. The key factors behind this are:

- The growth in e-commerce and the need to develop secure payment platforms
- The increased use of the internet and other remote communication mechanisms to exchange information and trade with suppliers, customers and other parts of an organisation wherever located
- Increasing legislation requiring information to be protected from unauthorised access
- The commercial risk of theft of confidential data through unauthorised access

- The risk of system sabotage by the introduction of viruses or attack by organised hackers
- The availability of increasingly sophisticated security products which need to be integrated into an organisation's existing systems

To date most expenditure in the sector has been on individual security applications eg anti-virus products, firewalls, authentication devices and PKI. With the growing need to simplify and control all aspects of security, the requirement for management software in this area has become increasingly important. It is this market, which is forecast to grow by 46% pa to \$1.6 billion pa by 2003 (Source: Datamonitor), that *edefice* specifically aims to address. The Directors believe that, by continuing to develop *edefice*, Intercede is well placed to respond to the market's need for such enabling software.

Intercede's customers cover a range of industries and include Barclays, Lloyds TSB, Abbey National, the Department of Trade and Industry, the Department for Education and Employment, the NHS, ICL, Compaq, Kingfisher and Pharmacia & Upjohn.

Intercede's customers frequently require the delivery of complete security solutions and, to this end, the Company combines third party security software and services with its own software. The market for these third party products is also growing rapidly and the Directors believe that Intercede is positioned to benefit from this continued growth.

The IT security market is international and the Company plans to extend its reach in overseas markets through indirect sales channels, utilising its existing supplier partnerships and by working closely with enterprise system integrators.

History and Development of the Business

The business was founded in 1992 by Richard Parris to exploit opportunities in the then newly emerging electronic commerce market. Early customers included AT&T, Boeing and Mercury Communications, to which the Company supplied electronic commerce business consulting services.

At an early stage he recognised that the lack of security on the internet was one of the significant barriers to the adoption of electronic commerce and he refocused Intercede to concentrate on IT security software and systems.

In 1995, Intercede signed a contract to be ActivCard's first international distributor.

In 1997, Intercede was contracted to build a distribution channel in the UK for WatchGuard Technologies Inc, one of the first manufacturers of firewall appliances. In the same year, Intercede became one of Baltimore Technologies first business partners.

In 1998, Intercede worked with Sonic Systems Inc to establish a European distribution network for its range of firewalls. Agreements were also signed during 1997-1999 with Netscreen Technologies and Fischer International.

During 2000, Intercede signed OEM and distribution agreements with b.hold and LabCal. For channel delivery, Intercede has formalised agreements with Compaq and ICL, among others.

The experience of working with these specialist security product producers and on early pilot IT security projects with a number of blue chip organisations has enabled Intercede to develop from a reseller of third party products into a product integrator and now, with the development of *edefice*, into a software product producer.

Initially, Intercede grew organically on a self-funded basis. Then, in 1999, the Company raised £0.75m from the venture capital market which enabled it to develop ICSS (the predecessor to *edefice*) and to expand its infrastructure.

The Company is based at Lutterworth Hall in Leicestershire and currently employs 28 people.

Products and Services

Intercede's main products and services are:

- Proprietary software products – principally *edefice*
- Consultancy services relating to the specification and installation of security products
- Support and maintenance of Intercede's products
- The sale of third party software and hardware together with related support and maintenance

The Company is seeking to grow the element of revenue attributable to its own software. This is illustrated by the increasing proportion of revenues attributable to proprietary software in the analysis of Group turnover for the three and a half years ended 30 September 2000, set out below:

	Six months ended 30 September 2000	Year ended 31 March 2000	Year ended 31 March 1999	Year ended 31 March 1998
	£'000	£'000	£'000	£'000
Software	398	43	9	4
Consultancy	63	117	201	36
Support and maintenance	11	6	–	–
Third party	668	537	458	181
	1,140	703	668	221

edefice is designed to provide comprehensive scalable e-commerce security management. Configurations are available with the core software to meet a range of security requirements. The *edefice* suite allows the use of a wide variety of security products and devices in any combination. The principal components of *edefice* are:

Security Manager

Security Manager is the core component in *edefice* and provides comprehensive security management services. Amongst other features, Security Manager includes the applications necessary to personalise, issue and support PKI certificates and smartcards and to manage the security credentials of authorised users. Security Manager is scalable from a handful to many tens of thousands of users. This means that *edefice* can be deployed in a wide variety of environments ranging from small local medical practices to international banks with many locations.

Security Client

The *edefice* Security Client provides distributed security management and secure authentication functions to the individual user's access devices such as personal computers, thin clients and mobile devices.

Secure Single Sign-On

The Single Sign-On solution allows authentication to be performed for many IT applications using a single smartcard. The smartcard is used to verify the user's identity while the *edefice* Security Manager provides access control into new and legacy applications.

Secure Transaction Validation Server

The Secure Transaction Validation Server is used to validate transactions carried out via fax or website by authenticating the identity of the party concerned and verifying the transaction details.

Secure Laptop

A complete security solution for protecting data on laptops. The hard disk is encrypted to protect the data if the laptop is lost or stolen. A smartcard is used to provide strong authentication and also to hold the encryption key for the hard disk encryption.

Security Hardware Devices

Intercede supplies a range of own brand and branded token devices, smartcards, smartcard readers and biometric devices. All devices supplied by Intercede work seamlessly with *edefice*.

Consultancy services relate to developer's and support engineer's time charged out to customers on specific projects for services ranging from advising customers on their security requirements to installation and training. Initial consultancy projects have typically focused on determining customers' security requirements, resulting in the subsequent development of software to address those needs. Consultancy projects will continue to be important for the foreseeable future, both in obtaining further business and in ensuring that product development continues to recognise and address the market's needs.

The Company provides support and maintenance to its customers on both its own software and third party products. This service is mandatory in the first year of all software sales and the objective is to ensure that it also embraces the third party products included in the particular contract.

In addition to its own software sales, the Company also facilitates the deployment and management of security solutions incorporating leading third party products such as ActivCard, Baltimore and Entrust. The Directors believe that this not only provides additional margin from the resale of third party products but also represents a competitive advantage due to the Company's ability to integrate a variety of security components with its own overall management software.

Product Development

edefice provides centralised management, monitoring and control of the IT security infrastructure of an organisation. Future development will focus on the addition of new components and the expansion of existing functionality. More specifically, Intercede plans to develop *edefice* further by extending the range of operating systems on which it can be used. Additionally, it is developing a thin client solution and in conjunction with this is seeking to extend *edefice* into m-commerce applications.

The product architecture has been designed to enable rapid migration and integration with current and known future developments in the security market place.

Competitive Position

In its primary software market, Intercede faces competition from a number of potential sources, including:

- Product producers: individual product producers may provide their own security management software. However, the Directors believe that these producers are unlikely to obtain the support of other suppliers in expanding their offerings to cover products with which they compete. There are also some companies that offer integrated product suites, but the Directors believe that they suffer competitively from being unable to offer leading products across all applications

- General systems integrators and other multi-national companies: a number of these companies are well resourced but are thought by the Directors to be more likely to buy in an existing package from a company such as Intercede rather than to devote resources to the development of their own in-house software integration tools
- Specialist suppliers: the Directors are aware of other companies which act as specialist security integrators, but do not believe that these companies currently pose a significant threat to the business either because of their areas of specialisation, size or lack of geographical reach

In its secondary markets for the supply of third party security products Intercede has a wide range of competitors but seeks to ally itself with those companies supplying best-of-breed products.

The Directors believe that the Company has certain key strengths which give it significant competitive advantages. These include:

- Its position in the UK security management software and systems market
- The quality of its intellectual property, reflected in *edefice*
- The industry expertise and know how of its management and employees, which has been developed over a period of time by working closely with customers across a variety of sectors
- The quality of the Company's customer base, which gives it the high level of credibility necessary to be entrusted with delivering enterprise critical software solutions
- The quality and extent of the Company's trading relationships with a variety of other security product and service providers
- The flexibility of its products across multiple network security products and technologies

Historical Financial Information and Current Trading

The trading results of Intercede for the three and a half years ended 30 September 2000, which are extracted from the Accountants' Report in Part III of this document, are summarised below:

	Six months ended 30 September 2000	Year ended 31 March 2000	Year ended 31 March 1999	Year ended 31 March 1998
	£'000	£'000	£'000	£'000
Turnover	1,140	703	668	221
Cost of sales	(542)	(459)	(367)	(91)
Gross profit	598	244	301	130
Gross profit %	52%	35%	45%	59%
Other operating expenses	(894)	(1,082)	(418)	(292)
Operating loss	(296)	(838)	(117)	(162)
Net interest	(17)	(29)	(13)	(16)
Loss on ordinary activities before tax	<u>(313)</u>	<u>(867)</u>	<u>(130)</u>	<u>(178)</u>

This commentary should be read in conjunction with the Accountants' Report set out in Part III of this document.

Turnover is sensitive to the timing of major contracts and, as the Company seeks to increase the level of software sales, significant elements of turnover recognition may be dependent on factors such as the timing of software acceptance by the client. Thus, whilst the progression of sales to date is positive, this may not always be the case between any two accounting periods.

Sales in the six months to 30 September 2000 reflect the benefit of a large contract with Lloyds TSB. In the previous year, activity was depressed as a result of a slowdown in expenditure in the financial services sector due to concerns over Y2K.

The Group has evolved from being a distributor of third party products to a systems integrator and, more recently, a vendor of proprietary software. This evolution is expected to continue with the further development of *edefice*. Accordingly, the gross profit margin before overheads, including research and development, may be expected to rise. The reduction in margin between the years ended 31 March 1998 and 2000 is explained by the relatively high and increasing levels of lower margin third party product sales.

The increasing overhead cost largely reflects product development expenditure and the ongoing expansion of technical, sales and administrative resources to support anticipated growth.

Sales in the first half of the current financial year have been strong due to the Lloyds TSB contract. While sales in the second half are unlikely to be higher, trading in the first few months remains well ahead of the corresponding period in the previous financial year.

Dividend Policy

The Directors intend to utilise the cash resources generated by the Company to fund its expansion in the short term. In the medium term a progressive dividend policy will be considered.

Directors and Key Managers

The Board of Intercede consists of three executive Directors and three non-executive Directors. Intercede currently has 25 employees other than the Directors, including a number of key managers who provide support to the Board. Brief biographies of the Directors and these key managers are set out below.

Directors

Richard Parris, Chairman and Chief Executive (Age 44)

Richard Parris has over 20 years experience in the IT industry. He was Manager of Intercompany Communications at Boeing Computer Services from 1990 to 1992, working in both the US and the UK. Between 1984 and 1990 he held a range of senior technical and sales management positions at Boeing, including working as new business manager for network management software products. Richard is a Chartered Engineer with a First Class Honours degree from Manchester University and has an MBA (with Distinction) from the University of Warwick Business School. He is a CESG Listed Security Advisor. He founded Intercede in 1992.

Jayne Murphy, Operations Director (Age 44)

Jayne Murphy has over 20 years experience of public sector, operational and human resource management. She was formerly the Chief Executive of Coventry Healthcare NHS Trust from 1997 to 1998. Prior to this she was Director of Operations and Deputy Chief Executive from 1993 to 1996 at the same Trust. From 1989 to 1992 Jayne was Business Manager of Medicine for Walsgrave Hospital NHS Trust, and before this she held a range of management positions at Walsgrave Hospital. Jayne has a BA (Honours) degree from

Nottingham University and is an Associate of the Institute of Health Service Management. She is a JP on the Coventry Bench. She was appointed Operations Director of Intercede on 1 January 1999. Jayne is married to Richard Parris.

Andrew Walker, Finance Director (Age 40)

Andrew Walker is a finance professional with extensive senior management experience. He was Group Financial Controller of The Rugby Group PLC from 1995 to 2000, and an Executive Board member from 1997. From 1993 to 1995 he was Finance Director for APV Refrigeration & Freezer Division, and from 1991 to 1993 he was Finance Director for APV Vent-Axia Industrial Division. From 1990 to 1991 he was Group Chief Accountant for APV plc. Before joining APV plc, Andrew worked for Price Waterhouse from 1981 to 1990. Andrew has a BCom (Honours) in Accounting from the University of Birmingham and is a Fellow of the Institute of Chartered Accountants. He was appointed Finance Director of Intercede on 11 September 2000.

Jurek Sikorski, Non-Executive Director (Age 49)

Jurek Sikorski is a director of a number of private technology companies and a member of the Board of the BioIndustry Association Ltd. He has over 25 years experience in the healthcare and biotechnology industries. Previously he was Chief Executive of Cantab Pharmaceuticals Plc and Proteus International Plc. He has also worked as Marketing and Sales Director at Smith & Nephew and as Marketing and Sales Director of Medical Diagnostics at Wellcome. He received a BSc degree with honours at Reading University. In addition, he has diplomas in Management Studies and Applied Statistics from Bristol Business School and the University of Bath respectively. He was appointed a Non-Executive Director of Intercede on 4 December 2000.

Jonathan Hubbard-Ford, Non-Executive Director (Age 57)

Jonathan Hubbard-Ford was Chief Executive of business and accounting software specialist Pegasus Goup Plc, a position he had held for eight years until its recent successful disposal. Prior to that he was Commercial Director of the leading IT Consultancy, Butler Cox Plc. He was a main Board Director of Hutchison Whampoa Ltd in Hong Kong from 1976 to 1984 and was its Chief Operating Officer from 1980-1984. He holds an Honours degree in Law from Oxford University and is a Chartered Accountant. He was appointed a Non-Executive Director of Intercede on 4 December 2000.

Greg Roediger, Non-Executive Director (Age 28)

Greg Roediger is a Chartered Accountant and is a Registered Securities Representative of The Securities and Futures Authority. He joined Arthur Andersen in Johannesburg in 1993, moving to their London office in 1997, where he was a manager in the Financial Markets Division. From 1998 to date, Greg has helped build the UK operation of the Credo Group, where he is Head of Securities Trading and Chief Financial Officer. Greg has a First Class BCom (Honours) degree in Accounting from the University of Cape Town. He was appointed a Non-Executive Director of Intercede on 31 March 2000.

Key Managers

Nick Price, Director of Sales (Age 53)

Nick Price is a senior sales and general business manager with considerable experience in the IT industry. From 1998 to 1999 he was Sales Manager of the systems division at Peritech Systems Plc. He was General Manager at Intergraph Public Safety (UK) Limited, a subsidiary of Intergraph Corporation Inc., from 1996 to 1998. He worked for Intergraph (UK) Limited as Sales Director from 1995 to 1996, and before that in a variety of executive and sales management positions from 1984 to 1995. He was appointed Director of Sales on 15 November 1999.

Chris Edwards, Technical Architecture Manager (Age 42)

Chris Edwards has over 17 years experience within the IT industry and was previously employed by SER Systems Limited as a software product manager from 1985 to 2000. He was responsible for product architecture and setting the strategic development direction of that company. He has a BSc in Chemistry and a PhD in Chemical Physics. Chris was appointed in June 2000, and is responsible for *edefice* product architecture.

Richard Critten, Technical Development Manager (Age 41)

Richard Critten has over 16 years commercial software development experience taking software packages from conception to delivery in the market place. From 1984 to 1993 he was Project Manager for the National Computing Centre. Between 1993 and 1999 he worked as an independent contractor for ICL, EDS and Fame Computers Limited. He has a BSc in Computing and Mathematics. He joined Intercede initially as a contractor in 1998 and then as a permanent employee in January 1999.

Richard Ffoulkes, Director of Marketing (Age 40)

Richard Ffoulkes has eight years IT sales and marketing experience in commercial software sales for IBM and IBM Business Partners. Prior to that he was the Sales and Marketing Director of Pioneer Supamix Ltd between 1986 and 1991, where he was a member of the board of that company. Richard joined Intercede in July 2000 and, in addition to his role as Director of Marketing, is also responsible for sales into Central Government Departments and Agencies.

Employee Incentivisation

The Directors have introduced a share option plan, which comprises three parts, namely the Intercede Approved Share Option Plan, the Intercede Unapproved Share Option Plan and the Intercede Enterprise Management Incentive Plan. A summary of the Option Plan is set out in paragraph 8 of Part IV of this document. The Directors believe that the Option Plan will be an important factor in the Group's incentivisation and retention of employees. Options are being granted to employees over 636,350 Ordinary Shares (representing 3.89 per cent. of the enlarged issued share capital following the Placing) to replace the options granted by Intercede Limited and referred to in paragraph 4.9 of Part IV.

Reasons for the Placing and Use of Funds

The Placing will raise approximately £2.2 million, net of expenses for the Company.

The Directors believe that the Placing will be particularly beneficial in raising the profile of Intercede in the IT security management market place (both in the UK and overseas) and in further enhancing its reputation with customers.

The Directors believe that the security management products market will grow rapidly in the next few years and that, with the development of *edefice* and given the strength of the Company's external relationships, it is well placed to benefit from this growth. To do so however, will require further investment and this is the purpose of the Placing which will provide funds for increasing the numbers of software product development staff and for the development of additional UK and international sales channels.

The Directors believe that the current process of consolidation of businesses within the IT security industry will continue and that the Company is in a strong position to take a leading role in this process. The Company will therefore give consideration to selected acquisitions, initially focusing on opportunities in the UK and Europe, to complement its current product offering.

Details of the Placing

Numis has arranged for 4,636,652 Ordinary Shares to be conditionally placed with institutional and other investors at the Placing Price. The Placing will raise approximately £2.2 million, net of expenses.

The arrangements for payment for the Placing Shares are set out in the placing letter being sent to investors.

Details of the Placing Agreement are set out in paragraph 11 of Part IV of this document.

Following Admission, the Directors will be interested in 5,826,332 Ordinary Shares, representing approximately 35.61 per cent. of the enlarged issued share capital of the Company. The Directors have given undertakings, subject to certain limited circumstances, not to dispose of any of their shareholdings after the Placing until 18 months' after Admission, in respect of the executive Directors, and 6 months' after Admission, in respect of the non-executive Directors, without the consent of Numis.

All of the other existing shareholders have given undertakings to Numis not to dispose of their shares until 6 months' from the date of Admission.

It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 8 January 2001.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Ordinary Shares have been made eligible for settlement in CREST and the Company has applied to CRESTCo Limited for the Ordinary Shares to be settled in CREST with effect from Admission.

Tax Reliefs

Introduction

There are two types of tax relief which might be relevant to investors, comprising tax relief under the enterprise investment scheme ("EIS") and tax relief by virtue of venture capital trust ("VCT") status. The summaries below give only a brief outline of how the tax reliefs are given. They do not set out all the rules which must be met by the investor and the Company for certain periods of time. In particular, investors should note that the Company cannot undertake to conduct its activities in such a way as to preserve investors' ability to claim either of the tax reliefs described, and will not compromise the future development of its business in order to continue to satisfy the various qualifying conditions pertaining to either tax relief. This summary is not a substitute for the investor obtaining professional tax advice before applying for shares, and an investor who is in any doubt as to his or her tax position should consult his or her professional adviser without delay.

EIS tax relief

Tax relief under the EIS legislation comprises income tax relief, capital gains tax deferral relief, capital gains tax exemption relief and loss relief. EIS tax relief can only be claimed by a qualifying individual who subscribes for eligible shares issued by a qualifying company on or after 1 January 1994.

Provided that various conditions are met, an investor may qualify for income tax relief on his investment (up to an annual maximum investment of £150,000) at 20 per cent., but this relief is only available against United Kingdom taxable income. Investors will have an opportunity to defer any capital gains made by rolling them over into new share investments under the EIS, but when the EIS investment is disposed of, the originally deferred gain becomes chargeable. Provided that the EIS provisions are complied with for a set time period,

any gain accruing to an investor on the first disposal of the EIS shares is exempt from capital gains tax. Where a loss is incurred by an investor on the first disposal of the EIS shares, the investor may set the net loss off against either chargeable gains or taxable income at his or her election.

The Company has received provisional confirmation from the Inland Revenue to the effect that the Company is a qualifying company for the purposes of EIS relief. However, investors should note that the Company does not make any representations as to whether any investment in the Company will be one in respect of which tax relief under the EIS legislation will be available or that any such tax relief will not subsequently be withdrawn by virtue of the Company's future actions. Investors should also note that the availability of the reliefs will depend on the investor's individual circumstances.

VCTs

Venture capital trusts are companies which specialise in investing in certain types of trading companies. Investors subscribing for eligible shares in such a trust may qualify for income tax and capital gains tax advantages, where numerous conditions are satisfactorily discharged.

A VCT is a venture capital trust listed on the London Stock Exchange which has been approved as a VCT by the Inland Revenue. To obtain approval it must comply with various conditions. Approval will be withdrawn if a VCT does not satisfy these conditions. The four kinds of tax relief which are available to an investor in a VCT comprise income tax investment relief at 20 per cent. on the amount subscribed for new ordinary shares in a VCT (up to an annual limit of £100,000), distribution relief (exemption from income tax on dividends paid by VCTs in respect of ordinary shares), exemption from capital gains tax on disposal of ordinary shares in a VCT, and deferral of a charge to capital gains tax on a disposal of any asset where the disposal can be matched against an investment in a VCT and the investment takes place within a certain time limit.

A company in which a VCT invests must satisfy a number of conditions if the VCT's holding in it is to be a "qualifying holding" for the purpose of the tax rules. The Company has received provisional confirmation from the Inland Revenue that Ordinary Shares of the Company issued to a VCT would, subject to the investing limits imposed on VCTs, rate as a qualifying investment. However, investors should note that the Company does not make any representations as to whether any investment in the Company will be one in respect of which tax relief by virtue of investment in a VCT will be available, or that such tax relief will not subsequently be withdrawn by virtue of the Company's future actions. Investors should also note that the availability of the reliefs will depend on the investor's individual circumstances.

Intellectual Property Rights

The Group's success is dependent in part upon its proprietary software. The Group relies primarily on a combination of copyright, non-disclosure and other contractual provisions and technical measures to protect its proprietary rights.

The Group attempts to ensure the protection of future developments by requiring all customers, consultants and employees to acknowledge that all intellectual property rights are retained by the Group.

The Group owns the copyright in respect of internally generated software products. Certain software products incorporate third party software provided to the Group under licence. Such licences, *inter alia*, govern the rights of the Group to resell or use such software.

Corporate Governance

The Directors acknowledge the importance of the guidelines set out in the Combined Code on Corporate Governance published by the London Stock Exchange and intend, insofar as is possible or practicable given the Group's size, to comply with the recommendations of the Quoted Companies Alliance.

A remuneration committee has been established and comprises the non-executive Directors. Its mandate is to review the performance of executive Directors, recommend the scale and structure of their remuneration and review the basis of their service agreements with due regard to the interests of shareholders. No Director participates in decisions concerning his own remuneration.

An audit committee has been established and comprises the non-executive Directors. It will liaise directly with the Group's auditors and will seek to ensure that the Group complies with all appropriate corporate governance guidelines and generally accepted accounting principles and procedures.

The Directors recognise the importance of separating the roles of Chairman and Chief Executive and Richard Parris has confirmed that he plans to split these functions during the calendar year ending 31 December 2001.

Part II: Risk Factors



The investment described in this document may not be suitable for all recipients of this document. Before making an investment decision, prospective investors are advised to consult an investment adviser authorised under the Financial Services Act 1986 who specialises in investments of this kind. A prospective investor should consider carefully whether an investment in the Group is suitable for him in the light of his personal circumstances and the financial resources available to him.

Market liquidity

The market for shares in smaller public companies, including the Company, is less liquid than for larger public companies. Consequently their share prices may be subject to greater fluctuation and their shares may be difficult to buy and sell.

The price which investors may realise for their holding of Ordinary Shares, and when they are able to do so, may be influenced by a large number of factors, some of which are specific to the Company and others which are extraneous. Investors may realise less than the original amount invested by them.

Dependence upon key personnel

The Directors recognise that the Group is in an early stage of development and the loss of key personnel could harm the business or cause delay in the plans of the Group whilst management time is directed in finding suitable replacements. The Board is endeavouring to mitigate this risk by ensuring that key functions are not reliant on one individual and by ensuring that sufficient personnel are recruited to manage the growth of the Group effectively.

The future success of the Group is in part dependent upon its ability to identify, attract, motivate and retain staff with the requisite experience. In addition, the Group's ability to expand geographically will depend on its ability to attract and retain sales and marketing personnel.

Unpredictable future revenues and operating results

The Group's revenues, expenses and operating results could vary significantly from period to period as a result of a variety of factors, some of which are outside the Group's control. In particular, the Group's future revenues are inherently difficult to forecast because it relies on its ability to secure new contracts to generate most of its revenue and the variation in the size of customer orders makes it difficult to accurately forecast the timing and amount of specific sales.

Intellectual property rights

The Group currently relies, and will in the future rely, on intellectual property laws and third party non-disclosure agreements to protect its intellectual property rights. Despite precautions which may be taken by the Group to protect its products, unauthorised parties may attempt to copy, or obtain and use its products. Alternative technological solutions to the development of products similar to the Group's products are available to competitors or potential competitors of the Group. To the extent that the Group's products are protected by intellectual property rights, litigation may be necessary to protect such rights.

Competition and new technology

Products are available which compete directly or indirectly with the Group's products. New technology, changing commercial circumstances and new entrants to the markets in which the Group operates may adversely affect the Group's business. Many of the companies operating in the same sector as the Group are significantly larger and have significantly greater financial resources.



Government controls

The Company's software includes certain encryption routines. The encryption market is highly regulated and the United Kingdom Government may from time to time impose export controls that could restrict the market for the Company's products in certain areas. However, to date, no restrictions have been placed on any sales made by the Company nor are the Directors aware of any impending threat in this regard.

Part III: Accountants' Reports



ARTHUR ANDERSEN

Arthur Andersen
1 Victoria Square
Birmingham
B1 1BD

A: INTERCEDE GROUP PLC

The Directors
Intercede Group plc
Lutterworth Hall
St Mary's Road
Lutterworth
Leicestershire LE17 4PS

The Directors
Numis Securities Limited
Cheapside House
138 Cheapside
London EC2V 6LH

5 January 2001

Dear Sirs

Intercede Group plc (formerly Optionsilver plc) ("the Company") and subsidiary undertaking ("the Group")

We report on the financial information set out below. This financial information has been prepared for inclusion in the AIM Admission Document dated 5 January 2001 of the Company ("the AIM Admission Document").

Basis of preparation

The financial information set out below, which has been prepared in accordance with applicable United Kingdom accounting standards, is based on the audited non-statutory consolidated financial statements of the Group for the period from incorporation on 3 November 2000 to 30 November 2000 ("the financial statements"), to which no adjustments were considered necessary.

Responsibility

The financial statements are the responsibility of the Directors of the Company who approved their issue.

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

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information.

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

Opinion

In our opinion, the financial information gives, for the purposes of the AIM Admission Document, a true and fair view of the state of affairs of the Group as at 30 November 2000 and of its cash flows for the period then ended.

We consent to the inclusion of this report in the AIM Admission Document and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Consolidated balance sheet

	<i>30 November</i>
	<i>2000</i>
	<i>£</i>
Current Assets	
Cash	2
	<hr/>
Net assets	2
	<hr/> <hr/>
Capital	
Called-up share capital (Note 2)	2
	<hr/>
Shareholders' funds – all equity	2
	<hr/> <hr/>

The accompanying notes are an integral part of the Consolidated balance sheet.

Consolidated cash flow statement

For the period ended 30 November 2000



	30 November 2000 £
Financing	
Issue of ordinary shares	2
	2
Increase in cash	2

The accompanying notes are an integral part of the Consolidated cash flow statement.

Notes to the Financial Information

1 Accounting convention

The financial information has been prepared under the historical cost convention.

2 History

The Company was incorporated on 3 November 2000 as Optionsilver plc. It has not traded and no dividends have been declared or paid. Accordingly no profit and loss account is presented. On 1 December 2000 the Company changed its name from Optionsilver plc to Intercede Group plc.

3 Investments

On 23 November 2000, the Company acquired the entire issued share capital of Intercede 2000 Limited for a cash consideration of £1. Intercede 2000 Limited is a non-trading company registered in England and Wales.

4 Called-up share capital

	<i>Ordinary Shares</i>	
	<i>Number</i>	<i>of 25p each</i>
Authorised	22,500,000	50,000
Issued	8	2

The Company was incorporated on 3 November 2000 with an authorised share capital of £50,000 £1 ordinary shares and issued 2 £1 ordinary shares.

On 30 November 2000, a resolution was passed to sub-divide each ordinary share of £1 in the capital of the Company, issued and authorised but unissued, into four Ordinary Shares of 25p each. In addition, on the same date the Company's authorised share capital was increased from £50,000 to £5,625,000 by the creation of 22,300,000 new Ordinary Shares of 25p each.

5 Commitments

There were no commitments as at 30 November 2000.

6 Post Balance Sheet Events

On 1 December 2000, the Company changed its name to Intercede Group plc.

On 4 December 2000 the Company acquired the entire share capital of Intercede Limited. The acquisition was financed by a share issue of 11,665,500 shares.

7 Loan Facility

On 28 November 2000 Intercede Group plc entered into a £500,000 loan facility agreement with The Celtic Trust Company Limited ("Celtic"). Any amounts drawn down by the Company shall be repayable by the Company in full on 27 November 2001, subject to the right of Celtic to convert such drawn down amounts to Ordinary Shares (up to a maximum of 777,700 Ordinary Shares).

Yours faithfully

Arthur Andersen

Chartered Accountants

B: INTERCEDE LIMITED

The Directors
Intercede Group plc
Lutterworth Hall
St Mary's Road
Lutterworth
Leicestershire LE17 4PS

The Directors
Numis Securities Limited
Cheapside House
138 Cheapside
London EC2V 6LH



ARTHUR ANDERSEN

Arthur Andersen
1 Victoria Square
Birmingham
B1 1BD

5 January 2001

Dear Sirs

Intercede Limited ("the Company")

We report on the financial information set out below. This financial information has been prepared for inclusion in the AIM Admission Document, dated 5 January 2001 of the Company ("the AIM Admission Document").

Basis of preparation

The financial information set out on pages 27 to 50 below, which has been prepared on the basis set out on pages 25 and 26 and in accordance with applicable United Kingdom accounting standards, is based on the audited accounts of the Company for the years ended 31 March 1998, 31 March 1999 and 31 March 2000 and the six months ended 30 September 2000 ("the accounts"), after making such adjustments as we considered necessary.

Responsibility

The financial information is the responsibility of the Directors of the Company who approved their issue. The Directors of the Company are responsible for the contents of the AIM Admission Document in which this report is included. It is our responsibility to compile the financial information set out in our report from the accounts, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued in the United Kingdom by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the accounts underlying the financial information for the year ended 31 March 2000 and the six months ended 30 September 2000, and recorded by the auditors who audited the accounts underlying the financial information for the years ended 31 March 1998 and 31 March 1999. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the accounts underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial information gives, for the purposes of the AIM Admission Document, a true and fair view of the state of affairs of the Company as at the dates stated and of its losses and cash flows for the periods then ended.

Consent

We consent to the inclusion of this report in the AIM Admission Document and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) and 45(10)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the periods, is set out below.

a) Basis of accounting

The financial information is prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Development costs

All development costs are written off in the profit and loss account in the period in which they are incurred.

c) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful economic life as follows:

Fixtures and fittings	15% pa
Computer and office equipment	25% pa or over the period of the lease

d) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by tax legislation has been calculated using the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal.

e) Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes and is recognised in the period in which it is earned.

f) Revenue recognition

The Company's revenue recognition policies are detailed below:

Software license sales	–	Turnover is recognised upon delivery of the software.
Consulting and development services	–	Turnover on consulting and development services is recognised on completion of the relevant project or on a time and materials basis as costs are incurred where a project spans accounting periods.
Support and maintenance	–	Support and maintenance services are provided on fixed fee contracts. Maintenance fees are invoiced at the beginning of the period to which they relate and are initially recorded as deferred income. Revenue is then recognised rateably over the maintenance period.
Distribution of hardware	–	Turnover is recognised upon delivery of the product.
Training and installation services	–	Turnover is recognised upon the completion of training or installation services.

g) Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and sale. Provision is made for obsolete, slow-moving or defective items, where appropriate.

h) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract date. All exchange differences are included in the profit and loss account.

i) Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Profit and loss account



		Six months ended 30 September 2000 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 1998 £'000
Turnover	Notes 1	1,140	703	668	221
Cost of sales		(542)	(459)	(367)	(91)
Gross profit	1	598	244	301	130
Other operating expenses	2	(894)	(1,082)	(418)	(292)
Operating loss		(296)	(838)	(117)	(162)
Interest receivable and similar income	3	7	4	-	-
Interest payable and similar charges	4	(24)	(33)	(13)	(16)
Loss on ordinary activities before taxation	5	(313)	(867)	(130)	(178)
Taxation	7	-	-	-	2
Retained loss on ordinary activities after taxation and for the period	17	(313)	(867)	(130)	(176)
Loss per share	8	(2.9)p	(9.7)p	(2.2)p	(3.2)p

All operations of the Company continued throughout all periods and no operations were acquired or discontinued.

There are no recognised gains or losses in any period other than the loss for the period.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

		30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
	Notes				
Fixed assets					
Tangible assets	9	110	61	49	20
Current assets					
Stocks	10	17	8	55	26
Debtors	11	1,187	858	214	26
Cash at bank and in hand		688	101	262	24
		1,892	967	531	76
Creditors: Amounts falling due within one year	12	(1,658)	(378)	(284)	(201)
Net current assets (liabilities)		234	589	247	(125)
Total assets less current liabilities		344	650	296	(105)
Creditors: Amounts falling due after more than one year	13	(525)	(518)	(87)	(56)
Net (liabilities) assets		(181)	132	209	(161)
Capital and reserves					
Called-up share capital	15	40	40	33	20
Share premium account	16	1,270	1,270	487	-
Profit and loss account	16	(1,491)	(1,178)	(311)	(181)
Shareholders' (deficit) funds – all equity	17	(181)	132	209	(161)

The accompanying notes are an integral part of this balance sheet.

Cash flow statement



		Six months ended 30 September 2000 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 1998 £'000
Net cash outflow from operating activities	Notes 19	(715)	(634)	(226)	(31)
Returns on investments and servicing of finance	20	(2)	(33)	(8)	(16)
Taxation	20	–	–	1	–
Capital expenditure and financial investment	20	(59)	(32)	(36)	(6)
Cash outflow before financing		(776)	(699)	(269)	(53)
Financing	20	1,412	489	507	75
Increase (decrease) in cash in period	21	<u>636</u>	<u>(210)</u>	<u>238</u>	<u>22</u>

The accompanying notes are an integral part of this cash flow statement.

I Segmental information

All of the Company's turnover originates in the United Kingdom. The split of turnover by geographical destination can be analysed as follows:

	Six months ended 30 September 2000 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 1998 £'000
United Kingdom	1,072	470	603	141
Europe	68	233	65	80
	<u>1,140</u>	<u>703</u>	<u>668</u>	<u>221</u>

The split of turnover by revenue type is further analysed as follows:

	Six months ended 30 September 2000 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 1998 £'000
Software	398	43	9	4
Third party products	654	494	442	172
Professional Services				
– Consultancy	63	117	201	36
– Support and Maintenance	11	6	–	–
Third Party Support and Maintenance	14	43	16	9
	<u>1,140</u>	<u>703</u>	<u>668</u>	<u>221</u>

2 Other operating expenses

	Six months ended 30 September 2000 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 1998 £'000
Sales and marketing expenses	204	187	30	38
Administrative expenses	690	895	388	254
	<u>894</u>	<u>1,082</u>	<u>418</u>	<u>292</u>

Cost of sales includes software development costs of £43,000 (31 March 2000 – £72,000, 31 March 1999 – £45,000, 31 March 1998 – £nil). Administrative expenses include software development costs of £113,000 (31 March 2000 – £144,000, 31 March 1999 – £4,000, 31 March 1998 – £nil).

3 Interest receivable and similar income

	Six months ended 30 September 2000 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 1998 £'000
Bank interest receivable	7	4	–	–

4 Interest payable and similar charges

	Six months ended 30 September 2000 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 1998 £'000
Bank loans and overdrafts	19	25	7	13
Finance leases	5	3	1	3
Directors' loans	–	5	5	–
	<u>24</u>	<u>33</u>	<u>13</u>	<u>16</u>

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	Six months ended 30 September 2000 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 1998 £'000
Exchange losses	3	1	1	–
Depreciation of tangible fixed assets				
– owned	8	9	3	2
– held under finance leases	6	11	4	3
Research and development expenditure	156	216	49	–
Operating lease rentals	15	18	12	6
Auditors' remuneration for audit services	7	16	2	3

Included in the auditors' remuneration for audit services above are fees of £nil (31 March 2000 – £3,000, 31 March 1999 – £2,000 and 31 March 1998 – £3,000) incurred by a firm of accountants other than Arthur Andersen.

Amounts payable to Arthur Andersen by the Company in respect of non-audit services were £2,000 (31 March 2000 – £3,000, 31 March 1999 and 31 March 1998 – £nil). Amounts payable to a firm of accountants other than Arthur Andersen in respect of non-audit services were £nil (31 March 2000 – £nil, 31 March 1999 – £11,000, 31 March 1998 – £1,000).

6 Staff costs

The average monthly number of employees (including executive directors) was:

	<i>Six months ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>
	<i>30 September</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>
	<i>2000</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
Technical	10	6	3	3
Sales and distribution	5	3	–	–
Administration	6	5	2	2
	<u>21</u>	<u>14</u>	<u>5</u>	<u>5</u>

Their aggregate remuneration comprised:

	<i>Six months ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>
	<i>30 September</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>
	<i>2000</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Wages and salaries	435	563	184	128
Social security costs	47	61	18	12
	<u>482</u>	<u>624</u>	<u>202</u>	<u>140</u>

Directors' remuneration

Remuneration in respect of directors of the Company was as follows:

	<i>Six months ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>
	<i>30 September</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>
	<i>2000</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Emoluments	<u>77</u>	<u>193</u>	<u>110</u>	<u>60</u>
Compensation for loss of office	<u>–</u>	<u>29</u>	<u>–</u>	<u>–</u>

The Company does not operate a long term incentive scheme, a pension scheme, or make contributions to the personal pension schemes of the directors. Emoluments exclude fees paid to third parties.

6 Staff Costs (continued)

The Company paid M Harrison and B Hayden £25,000 and £4,000 respectively as compensation for loss of office as directors following their resignations from the Board on 13 October 1999 and 31 March 2000 respectively.

			Six months ended 30 September 2000	Year ended 31 March 2000	Year ended 31 March 1999	Year ended 31 March 1998
	Fees/basic salary £'000	Taxable benefits £'000	Total £'000	Total £'000	Total £'000	Total £'000
R A Parris	42	1	43	80	72	60
J K Murphy	29	—	29	55	14	—
A M Walker	5	—	5	—	—	—
M Harrison	—	—	—	31	19	—
B Haydon	—	—	—	27	5	—
	<u>76</u>	<u>1</u>	<u>77</u>	<u>193</u>	<u>110</u>	<u>60</u>
Fees to third parties			<u>3</u>	<u>—</u>	<u>—</u>	<u>—</u>

M Harrison and B Haydon resigned their directorships of the Company on 13 October 1999 and 31 March 2000 respectively.

Fees to third parties comprise amounts paid to Credo Corporate Finance Limited under an agreement to provide the Company with the services of G J Roediger as a non-executive director. G J Roediger is a director of Credo Corporate Finance Limited.

7 Taxation

	Six months ended 30 September 2000	Year ended 31 March 2000	Year ended 31 March 1999	Year ended 31 March 1998
	£'000	£'000	£'000	£'000
UK corporation tax	—	—	—	(1)
Adjustment in respect of previous year	—	—	—	(1)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2)</u>

There is no charge in respect of corporation tax at 30 September 2000, 31 March 2000 and 31 March 1999 due to the availability of losses.

There was no unprovided deferred taxation liability at any period end.

8 Loss per share

The calculations of loss per share are based on the losses of the Company during each of the periods. The weighted average number of ordinary shares have been based on the number of ordinary shares of Intercede Group plc in issue immediately prior to its Admission, following its acquisition of Intercede Limited, as adjusted for the capital re-organisation as described on page 44 and the changes in the Company's share capital throughout the reported period.

	<i>Six months ended 30 September 2000 £'000</i>	<i>Year ended 31 March 2000 £'000</i>	<i>Year ended 31 March 1999 £'000</i>	<i>Year ended 31 March 1998 £'000</i>
Loss for the period	<u>(313)</u>	<u>(867)</u>	<u>(130)</u>	<u>(176)</u>
Weighted average number of shares	<u>10,868,550</u>	<u>8,942,725</u>	<u>6,018,100</u>	<u>5,500,000</u>
Loss per share	<u>(2.9)</u>	<u>(9.7)</u>	<u>(2.2)</u>	<u>(3.2)</u>

9 Tangible fixed assets

	<i>Motor vehicles</i> £'000	<i>Fixtures and fittings</i> £'000	<i>Computer and office equipment</i> £'000	<i>Total</i> £'000
Cost				
At 1 April 1997	8	28	–	36
Additions	–	9	–	9
Disposals	(8)	–	–	(8)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	–	37	–	37
Additions	–	9	27	36
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1999	–	46	27	73
Additions	–	1	31	32
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2000	–	47	58	105
Additions	–	24	41	65
Disposals	–	(1)	(2)	(3)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2000	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation				
At 1 April 1997	2	12	–	14
Charge for the year	–	5	–	5
Disposals	(2)	–	–	(2)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	–	17	–	17
Charge for the year	–	5	2	7
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1999	–	22	2	24
Charge for the year	–	7	13	20
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2000	–	29	15	44
Charges for the period	–	4	10	14
Disposals	–	–	(1)	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2000	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value				
At 1 April 1997	6	16	–	22
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	–	20	–	20
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1999	–	24	25	49
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2000	–	18	43	61
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2000	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Leased assets included in the above:				
Net book value				
At 1 April 1997	–	15	–	15
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	–	10	–	10
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1999	–	–	6	6
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2000	–	–	35	35
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2000	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 Stocks

	30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
Finished goods and goods for resale	17	8	55	26

There is no material difference between the balance sheet value of stocks and their replacement cost.

11 Debtors: Amounts falling due within one year

	30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
Trade debtors	1,139	82	197	22
Corporation tax recoverable	–	–	–	2
ACT recoverable	1	1	1	–
Prepayments and accrued income	47	25	9	–
Other debtors	–	750	7	2
	<u>1,187</u>	<u>858</u>	<u>214</u>	<u>26</u>

Other debtors of £750,000 as at 31 March 2000 relate to the deferred consideration on shares issued during the year (see Note 15).

12 Creditors: Amounts falling due within one year

	30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
Obligations under finance leases	26	17	3	3
Bank overdraft	–	49	–	–
Bank loan	10	10	15	15
Directors' loans	–	8	–	24
Invoice discounting	660	–	–	–
Payments received on account	–	–	53	25
Trade creditors	537	151	133	72
Taxation and social security	190	82	22	25
Accruals and deferred income	232	58	44	16
Other creditors	3	3	14	21
	<u>1,658</u>	<u>378</u>	<u>284</u>	<u>201</u>

13 Creditors: Amounts falling due after more than one year

	30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
Convertible debt				
7% convertible unsecured loan stock 2002	450	450	–	–
Other creditors				
Obligations under finance leases and hire purchase contracts	47	35	1	3
Bank loan	28	33	38	53
Directors' loans	–	–	48	–
	<u>75</u>	<u>68</u>	<u>87</u>	<u>56</u>
	<u>525</u>	<u>518</u>	<u>87</u>	<u>56</u>

The 7% convertible unsecured loan stock 2002 is convertible at the option of the holder into fully paid ordinary shares of the Company at £113.86 per ordinary share (up to 3,952 shares at any time prior to the later of the flotation of the Company and 31 March 2002). Unless previously redeemed or converted, the debt will be redeemed at par on 31 March 2002.

The bank loan is repayable in monthly instalments over seven years. The original loan was for £75,000 in April 1997. Interest is payable at 3% above the prevailing base rate per annum. The bank loan is secured by a fixed and floating charge over the Company's debts and assets, including a specific charge over intellectual property rights.

13 Creditors: Amounts falling due after more than one year (continued)

Borrowings are repayable as follows:

	30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
Convertible debt				
Between two and five years	450	450	–	–
Bank loan				
Between one and two years	10	10	15	15
Between two and five years	18	23	23	38
	28	33	38	53
On demand or within one year	10	10	15	15
	38	43	53	68
Directors' loans				
Between one and two years	–	–	48	–
Between two and five years	–	–	–	–
	–	–	48	–
On demand or within one year	–	8	–	24
	–	8	48	24
Invoice discounting				
On demand or within one year	660	–	–	–
Finance leases				
Between one and two years	32	19	1	2
Between two and five years	15	16	–	1
	47	35	1	3
On demand or within one year	26	17	3	3
	73	52	4	6
Total borrowings including finance leases				
Between one and two years	42	29	64	17
Between two and five years	483	489	23	39
	525	518	87	56
On demand or within one year	696	35	18	42
	1,221	553	105	98

14 Derivatives and other financial instruments

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13").

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

The Company's financial instruments comprise borrowings, cash at bank and in hand and various items such as trade debtors and trade creditors which arise directly from its operations. The main purpose of these financial instruments is to fund the Company's operations.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and foreign currency risk to a limited extent. The Board has reviewed these risks on an ongoing basis throughout the period. The policy for their management is summarised below:

Interest rate risk

The Company has financed its operations to date through a mixture of retained profits and external finance in the form of a DTI bank loan and venture capital funding. These borrowings, which are all denominated in sterling, bear interest at both fixed and floating rates.

Liquidity risk

The Company's policy has been to ensure continuity of funding throughout the period.

Foreign currency risk

A major supplier invoices the Company in US Dollars. These exposures are not hedged and the exchange differences are recognised in the profit and loss account in the period in which they arise.

Interest rate profile

Financial assets

The Company has no financial assets other than sterling and US dollar cash deposits as follows:

	30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
Sterling – deposits	687	101	256	2
US dollar – deposits	1	–	6	22
	<u>688</u>	<u>101</u>	<u>262</u>	<u>24</u>

The sterling and US dollar cash deposits are held in current and premium accounts on normal terms and are placed on the money market at call and 6-day rates.

14 Derivatives and other financial instruments (continued)

Financial liabilities

The interest rate profile of the Company's financial liabilities at 30 September 2000 was as follows:

	<i>Total</i> 30 September 2000 £'000	<i>Floating</i> <i>rate</i> 30 September 2000 £'000	<i>Fixed</i> <i>rate</i> 30 September 2000 £'000
Sterling			
– loan stock	450	–	450
– finance leases	73	–	73
– bank loan	38	38	–
– invoice discounting	660	660	–
Total	1,221	698	523

The profile at 31 March 2000 for comparison purposes was as follows:

	<i>Total</i> 31 March 2000 £'000	<i>Floating</i> <i>rate</i> 31 March 2000 £'000	<i>Fixed</i> <i>rate</i> 31 March 2000 £'000
Sterling			
– loan stock	450	–	450
– finance leases	52	–	52
– bank loan	43	43	–
– directors' loans	8	–	8
Total	553	43	510

The profile at 31 March 1999 for comparison purposes was as follows:

	<i>Total</i> 31 March 1999 £'000	<i>Floating</i> <i>rate</i> 31 March 1999 £'000	<i>Fixed</i> <i>rate</i> 31 March 1999 £'000
Sterling			
– finance leases	4	–	4
– bank loan	53	53	–
– directors' loans	48	–	48
Total	105	53	52

14 Derivatives and other financial instruments (continued)

The profile at 31 March 1998 for comparison purposes was as follows:

	Total	Floating rate	Fixed rate	Interest free rate
	31 March 1998	31 March 1998	31 March 1998	31 March 1998
	£'000	£'000	£'000	£'000
Sterling				
– finance leases	6	–	6	–
– bank loan	68	68	–	–
– directors' loans	24	–	–	24
Total	<u>98</u>	<u>68</u>	<u>6</u>	<u>24</u>

Further analysis of the interest rate profile at 30 September 2000, 31 March 2000, 31 March 1999 and 31 March 1998 is as follows:

	30 September 2000	
	Weighted average interest rate (%)	Weighted average period for which rate is fixed rate is fixed Years
Sterling		
– loan stock	7.0	1.5
– finance leases	5.9	2.5
Total	<u>6.9</u>	<u>1.6</u>

	31 March 2000	
	Weighted average interest rate (%)	Weighted average period for which rate is fixed rate is fixed Years
Sterling		
– loan stock	7.0	2.0
– finance leases	5.6	2.7
– directors' loans	10.0	0.2
Total	<u>6.9</u>	<u>2.0</u>

	31 March 1999	
	Weighted average interest rate (%)	Weighted average period for which rate is fixed rate is fixed Years
Sterling		
– finance leases	7.1	1.4
– directors' loans	10.0	1.2
Total	<u>9.8</u>	<u>1.2</u>

14 Derivatives and other financial instruments (continued)

	31 March 1998		
	Fixed rate		Interest free rate
	Weighted average interest rate (%)	Weighted average period for which rate is fixed (Years)	Weighted average period to maturity (Years)
Sterling			
– finance leases	7.4	2.2	–
– directors' loans	–	–	2.2
Total	<u>7.4</u>	<u>2.2</u>	<u>2.2</u>

The interest rate on floating rate bank loans and factored sales invoices is linked to the prevailing base rate and LIBOR respectively. Further details of interest rates on long term borrowings are given in note 13.

Currency exposures

The table below shows the Company's currency exposures: in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Company that are not denominated in the operating (or "functional") currency of the Company (sterling). These exposures were as follows:

	Net foreign currency monetary liabilities		
	US dollar	Euro	Total
	£'000	£'000	£'000
At 30 September 2000	<u>(394)</u>	<u>(9)</u>	<u>(403)</u>
At 31 March 2000	<u>(93)</u>	<u>–</u>	<u>(93)</u>
At 31 March 1999	<u>(70)</u>	<u>–</u>	<u>(70)</u>
At 31 March 1998	<u>(30)</u>	<u>–</u>	<u>(30)</u>

Maturity of financial liabilities

The maturity profile of the Company's borrowings at 30 September 2000 (see Note 13) was as follows:

	30 September 2000	31 March 2000	31 March 1999	31 March 1999
	£'000	£'000	£'000	£'000
In one year or less	696	35	18	42
In more than one year but not more than two years	42	29	64	17
In more than two years but not more than five years	483	489	23	39
Total	<u>1,221</u>	<u>553</u>	<u>105</u>	<u>98</u>

Borrowing facilities

The Company had no undrawn committed borrowing facilities at any period end.

Fair values

The directors consider that the fair values of the Company's financial assets and liabilities are not materially different to their book values.

15 Called-up share capital

	30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
Authorised				
50,000 (31 March 2000 and 1999 – 29,167, 31 March 1998 – 20,000) ordinary shares of £1 each	50	29	29	20
Nil (31 March 2000 and 1999 – 10,000, 31 March 1998 – nil) 'A' ordinary shares of £1 each	–	10	10	–
Nil (31 March 2000 and 1999 – 2,500, 31 March 1998 – nil) 'B' ordinary shares of £1 each	–	3	3	–
	<u>50</u>	<u>42</u>	<u>42</u>	<u>20</u>
Allotted, called-up and fully-paid				
39,522 (31 March 2000 – 27,022, 31 March 1999 and 1998 – 20,000) ordinary shares of £1 each	40	27	20	20
Nil (31 March 2000 and 1999 – 10,000, 31 March 1998 – nil) 'A' ordinary shares of £1 each	–	10	10	–
Nil (31 March 2000 and 1999 – 2,500, 31 March 1998 – nil) 'B' ordinary shares of £1 each	–	3	3	–
	<u>40</u>	<u>40</u>	<u>33</u>	<u>20</u>

Issues of share capital

At 1 April 1997, R A Parris and J K Murphy respectively owned 19,971 and 29 ordinary shares of £1 each.

On 5 February 1999, the authorised share capital of the Company was increased by the creation of 9,167 ordinary shares of £1 each, 10,000 'A' ordinary shares of £1 each and 2,500 'B' ordinary shares of £1 each. Ordinary shares, 'A' ordinary shares and 'B' ordinary shares ranked *pari passu* in terms of voting rights. 'A' ordinary shares carried an entitlement to dividends of 7% of cumulative profits on ordinary activities before taxation accruing from 1 April 2000. In the event of a winding up 'A' ordinary shares and 'B' ordinary shares carried an entitlement of £40 per share. The remaining assets could then be distributed to ordinary shareholders who were entitled to assets with a value of £40 per share. Beyond these limits the shares ranked equally.

Also on 5 February 1999, R A Parris transferred ownership of 1,971 ordinary shares of £1 each to J K Murphy for £nil consideration. On the same date, 10,000 'A' ordinary shares of £1 each and 2,500 'B' ordinary shares of £1 each were issued to 3i Group plc for consideration of £500,000.

15 Called-up share capital (continued)

On 30 March 2000, 3i Group plc sold their entire shareholding to Cove Valley Limited (a special purpose vehicle incorporated in the British Virgin Islands, representing a number of beneficial shareholders).

On 31 March 2000, R A Parris and J K Murphy were respectively issued 195 and 325 ordinary shares of £1 each for consideration of £40,000 which were fully paid up on that date. On the same date, 6,502 ordinary shares of £1 each were issued to Cove Valley Limited for consideration of £750,000, which were fully paid up on 7 April 2000.

On 14 June 2000, all 'A' and 'B' ordinary shares of £1 each were redesignated as ordinary shares of £1 each. On the same date, the authorised share capital of the Company was increased by the creation of 8,333 ordinary shares of £1 each.

On 27 November 2000, R A Parris transferred ownership of 1,628 ordinary shares of £1 each to J K Murphy for £nil consideration.

On 28 November 2000, Cove Valley Limited exercised warrants to subscribe for 2,898 ordinary shares of £1 each at a subscription price of £82.81 per share.

On 4 December 2000, the entire issued share capital of the Company was acquired by Intercede Group plc.

16 Reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 1997	–	(5)	(5)
Retained loss for the period	–	(176)	(176)
At 31 March 1998	–	(181)	(181)
Shares issued in the period	487	–	487
Retained loss for the period	–	(130)	(130)
At 31 March 1999	487	(311)	176
Shares issued in the period	783	–	783
Retained loss for the period	–	(867)	(867)
At 31 March 2000	1,270	(1,178)	92
Retained loss for the period	–	(313)	(313)
At 30 September 2000	<u>1,270</u>	<u>(1,491)</u>	<u>(221)</u>

17 Reconciliation of movements in shareholders' funds (deficit)

	30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
Loss on ordinary activities after taxation	(313)	(867)	(130)	(176)
New shares issued	–	790	500	–
Net (reduction in) addition to shareholders' funds	(313)	(77)	370	(176)
Opening shareholders' funds (deficit)	<u>132</u>	<u>209</u>	<u>(161)</u>	<u>15</u>
Closing shareholders' (deficit) funds	<u><u>(181)</u></u>	<u><u>132</u></u>	<u><u>209</u></u>	<u><u>(161)</u></u>

18 Financial commitments

(a) Capital commitments

	30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
Contracted for, but not provided for	<u>3</u>	<u>3</u>	<u>–</u>	<u>–</u>

(b) Operating leases

Annual commitments under non-cancellable leases are as follows:

	30 September 2000 £'000	31 March 2000 £'000	31 March 1999 £'000	31 March 1998 £'000
Expiry date:				
– within one year	–	18	11	12
– between two and five years	–	–	2	–
– after five years	65	–	–	4
	<u>65</u>	<u>18</u>	<u>13</u>	<u>16</u>

19 Reconciliation of operating loss to operating cash flow

	<i>Six months ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>
	<i>30 September</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>
	<i>2000</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating loss	(296)	(838)	(117)	(162)
Depreciation charges	14	20	7	5
Profit on sale of tangible fixed assets	1	–	–	3
(Increase) decrease in stocks	(9)	47	(29)	(23)
(Increase) decrease in debtors	(1,079)	106	(189)	12
Increase in creditors	654	31	102	134
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash outflow from operating activities	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
	(715)	(634)	(226)	(31)

20 Analysis of cash flows

	Six months ended 30 September 2000 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 1998 £'000
Returns on investments and servicing of finance				
Interest received	7	4	–	–
Interest paid	(4)	(34)	(7)	(13)
Interest element of finance lease rentals	(5)	(3)	(1)	(3)
Net cash outflow	(2)	(33)	(8)	(16)
Taxation				
UK corporation tax refund	–	–	1	–
Net cash inflow	–	–	1	–
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(60)	(32)	(36)	(9)
Sale of tangible fixed assets	1	–	–	3
Net cash outflow	(59)	(32)	(36)	(6)
Financing				
Issue of ordinary share capital	750	40	500	–
Income from invoice discounting	660	–	–	–
New secured loan	–	–	–	75
Repayment of secured loan	(5)	(10)	(15)	(14)
Increase in directors' loans	–	–	24	17
Repayment of directors' loans	(8)	(40)	–	–
New 7% convertible unsecured loan stock	–	450	–	–
Capital element of finance lease rentals	(11)	(6)	(2)	(7)
Receipts from sale and lease back of assets	26	55	–	4
Net cash inflow	1,412	489	507	75

21 Analysis and reconciliation of net debt

	<i>1 April</i>	<i>Cash flow</i>	<i>31 March</i>	<i>Cash flow</i>	<i>31 March</i>
	<i>1997</i>	<i>£'000</i>	<i>1998</i>	<i>£'000</i>	<i>1999</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash in hand, at bank	2	22	24	238	262
Debt due within one year	(14)	(25)	(39)	24	(15)
Debt due after one year	–	(53)	(53)	(33)	(86)
Finance leases	(9)	3	(6)	2	(4)
	(23)	(75)	(98)	(7)	(105)
Net (debt) funds	(21)	(53)	(74)	231	157

	<i>1 April</i>	<i>Cash flow</i>	<i>31 March</i>	<i>Cash flow</i>	<i>30 September</i>
	<i>1999</i>	<i>£'000</i>	<i>2000</i>	<i>£'000</i>	<i>2000</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash in hand, at bank	262	(161)	101	587	688
Overdrafts	–	(49)	(49)	49	–
	262	(210)	52	636	688
Debt due within one year	(15)	(3)	(18)	(652)	(670)
Debt due after one year	(86)	(397)	(483)	5	(478)
Finance leases	(4)	(48)	(52)	(21)	(73)
	(105)	(448)	(553)	(668)	(1,221)
Net funds (debt)	157	(658)	(501)	(32)	(533)

The reconciliation of the net cash flow to the movement in net debt is as follows:

	<i>Six months ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>
	<i>30 September</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>
	<i>2000</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Increase (decrease) in cash in period	636	(210)	238	22
Cash inflow from increase in debt and lease financing	(668)	(448)	(7)	(75)
Movement in net debt in period	(32)	(658)	231	(53)
Net (debt) funds at beginning of period	(501)	157	(74)	(21)
Net (debt) funds at end of period	(533)	(501)	157	(74)

22 Controlling party

As at 30 September 2000, the Company was controlled by the directors who owned 52% (31 March 2000 – 52%, 31 March 1999 – 62%, 31 March 1998 – 100%) of the ordinary share capital. Following the exercise of warrants on 28 November 2000 (see note 15), the directors' shareholding has been reduced to 48%.

23 Related party transactions

Directors' loans

During the periods under review, R A Parris, the Company's Chairman and Chief Executive, and J K Murphy, an executive director of the Company, provided the Company with unsecured loans. Interest on the loans accrued at 10% per annum from 1 April 1998 until their repayment on 31 May 2000. Prior to this the loans were interest free.

	<i>Six months ended</i> <i>30 September</i> <i>2000</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>2000</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>1999</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>1998</i> <i>£'000</i>
Interest charged in the period:				
– R A Parris	–	2	2	–
– J K Murphy	–	3	3	–
	<u>–</u>	<u>5</u>	<u>5</u>	<u>–</u>
Loans outstanding at the period end:				
– R A Parris	–	8	23	24
– J K Murphy	–	–	25	–
	<u>–</u>	<u>8</u>	<u>48</u>	<u>24</u>

G J Roediger

During the period ended 30 September 2000, G J Roediger served as a non-executive director. G J Roediger is also a director of Credo Corporate Finance Limited, the Company's corporate finance advisers. Consultancy fees charged by Credo Corporate Finance Limited to the Company in respect of his services as a non-executive director and general corporate finance advice, and balances outstanding at the period end were as follows:

	<i>Six months ended</i> <i>30 September</i> <i>2000</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>2000</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>1999</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>1998</i> <i>£'000</i>
Consultancy fees charged	<u>8</u>	<u>–</u>	<u>–</u>	<u>–</u>
Balance outstanding at period end	<u>8</u>	<u>–</u>	<u>–</u>	<u>–</u>

23 Related party transactions (continued)

B Hayden

During the years ended 31 March 1999 and 31 March 2000, B Hayden served as a non-executive director. Consultancy fees charged to the Company in respect of his services, and balances outstanding at the period end were as follows:

	<i>Six months ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>
	<i>30 September</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>
	<i>2000</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Consultancy fees charged	—	31	5	—
Balance outstanding at period end	—	16	5	—

In addition to consultancy fees, B Hayden was paid £4,000 by the Company during the year ended 31 March 2000 as compensation for loss of office as director following his resignation from the Board on 31 March 2000.

3i Group plc

During the year ended 31 March 1999, 3i Group plc purchased 10,000 'A' ordinary shares at £40 per share and 2,500 'B' ordinary shares at £40 per share. The shares were sold by 3i Group plc during the year ended 31 March 2000.

During the period of ownership, 3i Group plc charged the Company monitoring fees as follows:

	<i>Six months ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>
	<i>30 September</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>
	<i>2000</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Monitoring fees charged	—	7	1	—

24 Previous auditors

The statutory accounts for the years ended 31 March 1998 and 31 March 1999 were audited by a firm of Chartered Accountants other than Arthur Andersen.

Yours faithfully

Arthur Andersen

Chartered Accountants

Part IV: Additional Information



1. Responsibility statement

The Directors, whose names appear in paragraph 3 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the importance of such information.

2. The Company

The Company was incorporated in England and Wales on 3 November 2000 under the Act as a public company limited by shares with registered number 4101977, and was re-registered with the name "Intercede Group plc" on 1 December 2000.

The Company's registered office is at Lutterworth Hall, St Mary's Road, Lutterworth, Leicestershire LE17 4PS.

The principal legislation under which the Company operates is the Act and the regulations made thereunder. The liability of the members of the Company is limited.

3. The Directors

The Directors of the Company are:

<i>Name</i>	<i>Function</i>	<i>Age</i>
Richard Arthur Parris	Chairman and Chief Executive	44
Jayne Kathryn Murphy	Operations Director	44
Andrew Michael Walker	Finance Director	40
Jurek Stefan Sikorski	Non-Executive Director	49
Jonathan Louis Hubbard-Ford	Non-Executive Director	57
Gregory John Roediger	Non-Executive Director	28

all of Lutterworth Hall, St Mary's Road, Lutterworth, Leicestershire LE17 4PS.

Further details are disclosed in paragraph 6 of this Part IV of the document.

4. Share and Loan Capital

4.1 The Company was incorporated with an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each, of which two shares were issued to the subscribers to the memorandum of association.

4.2 By a resolution passed on 30 November 2000, it was resolved:

4.2.1 to sub-divide each ordinary share of £1 each into four Ordinary Shares of 25p each;

4.2.2 to increase the authorised share capital of the Company from £50,000 to £5,625,000 by the creation of an additional 22,300,000 Ordinary Shares;

4.2.3 to authorise the Directors generally and unconditionally to exercise all the powers of the Company to allot relevant securities (within the meaning of the section 80(2) of the Act) up to the Company's unallotted authorised share capital, this authority to be in substitution for all existing authorities granted to the Directors in respect of the allotment of relevant securities; and

4.2.4 to empower the Directors to allot equity securities (as defined in section 94(2) of the Act) as if section 89(1) of the Act did not apply to that allotment.

4.3 On 4 December 2000, 11,665,492 Ordinary Shares were allotted to the shareholders of Intercede Limited in consideration for the transfer of shares in Intercede Limited to the Company pursuant to the agreement referred to in paragraph 10.2 below.

4.4 By a resolution passed on 3 January 2001, it was resolved conditional on Admission:

4.4.1 to authorise the Directors generally and unconditionally to exercise all the powers of the Company to allot relevant securities (within the meaning of the section 80(2) of the Act) up to an aggregate nominal amount of £1,215,156.25 until 3 January 2006 but so as to enable the Company before that date to make offers or agreements which would or might require relevant securities to be allotted after that date and to enable the Directors to allot relevant securities in pursuance of those offers or agreements as if the authority conferred on them had not expired, this authority to be in substitution for all existing authorities granted to the Directors in respect of the allotment of relevant securities; and

4.4.2 to empower the Directors until the earlier of the conclusion of the next annual general meeting of the Company and 3 April 2002, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph 4.4.1 above as if section 89(1) of the Act did not apply to that allotment, the power being limited to:

4.4.2.1 the allotment of equity securities pursuant to the Placing;

4.4.2.2 the allotment of equity securities in connection with an issue or offer by way of rights in favour of holders of equity securities and any other person entitled to participate in the issue or offering where the equity securities respectively attributable to the interests of those holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of the allotment, subject only to exclusions or other arrangements as the Directors deem fit to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange; and

4.4.2.3 the allotment (other than pursuant to the power referred to in sub paragraphs 4.4.2 and 4.4.2.2 above) of equity securities up to an aggregate nominal amount of £182,273;

save that the Company may, before expiry of that authority, make an offer or agreement which would or might require equity securities to be allotted after expiry and the Directors may allot equity securities pursuant to that offer or agreement as if the authority had not expired.

4.5 The present authorised and issued and fully paid share capital of the Company is as follows:

<i>Authorised</i>		<i>Issued and Fully Paid</i>	
<i>No of Ordinary Shares</i>	<i>Amount (£)</i>	<i>No of Ordinary Shares</i>	<i>Amount (£)</i>
22,500,000	5,625,000	11,665,500	2,916,375

4.6 The authorised and issued and fully paid share capital of the Company immediately following Admission will be as follows:

<i>Authorised</i>		<i>Issued and Fully Paid</i>	
<i>No of Ordinary Shares</i>	<i>Amount (£)</i>	<i>No of Ordinary Shares</i>	<i>Amount (£)</i>
22,500,000	5,625,000	16,360,485	4,090,121.25

- 4.7 The authorised but unissued share capital of the Company immediately following Admission will be £1,534,878.75, representing approximately 27.29 per cent. of the authorised share capital. Approximately 2.83 per cent. of the authorised share capital will be reserved for the issue of 636,350 Ordinary Shares on the exercise of the options to be issued under the Option Plan, as referred to in paragraph 4.9 below.
- 4.8 The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash and, on Admission, will apply to the authorised but unissued share capital of the Company, except to the extent disapplied by the resolution referred to in paragraph 4.4.2 above.
- 4.9 Intercede Limited granted pursuant to the Intercede Limited share option plan options to various employees on 1 December 2000. As part of the arrangements referred to in paragraph 4.3 above and paragraph 10.2 below, these options will become options over 636,350 Ordinary Shares with an option exercise price of 47 pence per Ordinary Share. Apart from this change the options will continue on the terms of the Intercede Limited share option plan which is in identical terms to the Option Plan summarised in paragraph 8 below.
- 4.10 Save as disclosed in paragraphs 4.9, 10 and 17, on Admission no share or loan capital of the Company or any other member of the Group will be under option or will be agreed conditionally or unconditionally to be allotted or put under option.
- 4.11 Other than pursuant to the Placing, none of the Ordinary Shares have been marketed or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to AIM.

5. Memorandum and articles of association

The memorandum of association of the Company provides that among the Company's principal objects is to act as a holding company and as a general trading company. The objects of the Company are set out in full in clause 4 of its memorandum of association.

The articles of association of the Company (the "Articles") contain, *inter alia*, the following provisions:

5.1 Voting rights

Subject to the rights or restrictions referred to in paragraph 5.2 below and subject to any special rights or restrictions as to voting attached to shares (of which there are none at present), on a show of hands every holder of Ordinary Shares who is present in person shall have one vote and on a poll every holder who is present in person or by proxy shall have one vote for each Ordinary Share held by him. A corporate member may, by resolution of its directors or other governing body, authorise a person to act as its representative at general meetings and that person may exercise the same powers as the corporate member could exercise if it were an individual member.

5.2 Restrictions on voting

A member of the Company is not entitled, in respect of any share held by him, to be present or vote either personally or by proxy at any general meeting of the Company unless all amounts payable by him in respect of that share in the Company have been paid or credited as having been paid.

A member of the Company shall not, if the Directors determine, be entitled to attend general meetings or vote or to exercise rights of membership if he or another person appearing to be interested in the relevant shares has failed to comply with a notice given under section 212 of the Act

within 14 days (in a case where the shares in question represent at least 0.25 per cent. of their class) or within 28 days (in any other case) from the date of service of the notice. The restrictions will continue until the information required by the notice is supplied to the Company or until the shares in question are transferred or sold in the circumstances set out in the Articles.

5.3 *Dividends*

Subject to any special rights attaching to shares (of which there are none at present), the holders of the Ordinary Shares are entitled, proportionately amongst themselves, to the profits of the Company available for distribution and resolved by ordinary resolution to be distributed (up to the amount recommended by the Directors) according to the amounts paid up on the Ordinary Shares held by them. The Directors may pay interim dividends, if profits are available for distribution. No Dividends payable in respect of an Ordinary Share shall bear interest. The Directors may, if authorised by an ordinary resolution, offer the holders of Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid (or other specific assets) instead of cash in respect of all or part of a dividend ("a scrip dividend"). The Directors may, pursuant to the provisions of the Articles relating to disclosure of interests, withhold dividends or other sums payable in respect of shares which are the subject of a notice under section 212 of the Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class and in respect of which the required information has not been received by the Company within 14 days of that notice and the member holding those shares may not elect, in the case of a scrip dividend, to receive shares instead of that dividend.

The Company or its Directors may fix a date as the record date for a dividend provided that the record date is no later than the date on which the dividend is paid or made. A dividend unclaimed after a period of 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company.

5.4 *Return of capital*

On a winding-up, subject to any special rights attaching to shares (of which there are none at present), the assets available for distribution shall be divided among the members in proportion to the amounts of capital paid up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by law, divide among the members *in specie* or kind the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the same sanction, vest the whole or any part of the whole of the assets in trustees on trusts for the benefit of the members as he with the same sanction thinks fit but no member shall be compelled to accept any shares or other securities on which there is a liability.

5.5 *Variation of rights*

Subject to the provisions of the Statutes (as defined in the Articles), any rights attaching to a class of shares in the Company may be varied or abrogated with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the relevant class. The quorum for the separate general meeting shall be persons holding, or representing by proxy, not less than one-third in nominal value of the issued shares of the relevant class.

5.6 *Transfer of shares*

Subject to the restrictions set out in this paragraph, any member may transfer all or any of his shares which are in certificated form by instrument of transfer in any usual or common form or in any other form which the Directors approve. The transferor is deemed to remain the holder of the shares concerned until the name of the transferee is entered in the register of members in respect of them. All transfers of uncertificated shares shall be made in accordance with and subject to the Uncertificated Securities Regulations 1995 and the facilities and requirements of the relevant systems concerned and in accordance with any arrangements made by the Directors pursuant to the Articles.

The Directors have a discretion to refuse to register a transfer of a share which is not fully paid (provided that this does not prevent dealings in the shares from taking place on an open and proper basis) without giving a reason. The Directors must provide the transferee with a notice of the refusal within two months from the date on which the transfer was lodged in the case of certificated shares or, in respect of uncertificated shares, the date on which the operator instruction was received by the Company or by the sponsoring system participator acting on its behalf. The Directors may also decline to register a transfer of shares in certificated form unless (i) the instrument of transfer is delivered for registration to the registered office of the Company or at another place which the Directors determine, accompanied (except in the case of a transfer by a recognised clearing house or investment exchange, where a share certificate has not been issued) by the certificate for the shares to which it relates and other evidence which the Directors reasonably require to prove the title of the transferor; (ii) the instrument of transfer is in respect of only one class of share; (iii) the number of joint holders to whom the share is to be transferred does not exceed four. The Directors may, pursuant to the provisions of the Articles relating to disclosure of interests, decline to register a transfer in respect of shares which are the subject of a notice under section 212 of the Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class, and in respect of which the required information has not been received by the Company within 14 days after service of the notice.

5.7 *Alteration of capital and purchase of own shares*

The Company may alter its share capital as follows:

- 5.7.1 by ordinary resolution, it may increase its share capital, consolidate and divide all or any of its shares into shares of larger amount, sub-divide (subject to the provisions of the Statutes) all or any of its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person;
- 5.7.2 by special resolution and subject to the provisions of the Statutes, it may reduce its share capital, any capital redemption reserve or any share premium account or other undistributable reserves in any manner; and
- 5.7.3 subject to the provisions of the Statutes and with the sanction of an extraordinary resolution of the holders of any class of shares carrying rights to convert into equity share capital of the Company, the Company may purchase any of its own shares, including redeemable shares, at any price (whether at par or above or below par).

5.8 *Directors*

Number

Unless otherwise determined by the Company by ordinary resolution, the number of Directors shall be not less than two or more than 12.

Remuneration

The Directors (other than Directors holding executive office and alternate Directors) shall be paid the fees for their services determined by the Directors. The aggregate of the fees shall not exceed £100,000 per annum (subject to upwards adjustment in line with any percentage increase in the retail prices index) or such higher amount as may from time to time be determined by ordinary resolution. Any fee shall be in addition to or in lieu of any remuneration payable to a Director as the Directors in their discretion determine by reason of his appointment to any executive office or payable to a Director who performs services which, in the opinion of the Directors, go beyond the ordinary duties of a Director. The Directors may be paid all reasonable travel, hotel and incidental expenses properly incurred in the performance of their duties as Directors including expenses incurred in attending meetings of the Board, committees of the Board and general meetings or separate meetings of the holders of any class of shares or debentures of the Company.

Retirement of Directors by rotation

At every annual general meeting of the Company, one-third of the Directors (or, if their number is not three or a multiple of three, the number nearest to but not more than one-third) shall retire from office by rotation. In addition, each Director shall retire from office at the third annual general meeting after he was reappointed or appointed, if he would not otherwise fall within the Directors to retire by rotation.

The Directors to retire by rotation shall include (so far as necessary to obtain the number required) a Director who wishes to retire and not offer himself for re-election. The further Directors to retire shall be those of the other Directors who have been longest in office since their appointment or last reappointment but, as between persons who became or were last reappointed Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

The Directors to retire shall be determined (both as to number and identity) by the composition of the Board at the commencement of business on the day which is 14 days prior to the date of the notice convening the annual general meeting. A Director shall not be required, or be relieved from the obligation, to retire by reason of a change in the Board after that time but before the close of the meeting.

At the meeting at which a Director retires by rotation, the Company may fill the vacated office. The retiring Director may be put forward for reappointment.

A Director who retires at an annual general meeting may, if willing to act, be reappointed. If he is not reappointed, he shall retain office until the meeting appoints someone in his place or, if it does not do so, until the end of the meeting.

No person shall be capable of being appointed a Director after he has attained the age of 75 and a Director shall vacate his office at the conclusion of the first annual general meeting after his 75th birthday.

Executive Directors

Subject to the Statutes, the Directors may appoint a Director to an executive office of the Company. The appointment may be on the terms the Directors determine.

The appointment of a Director to an executive office terminates if he ceases to be a Director, but without prejudice to any claim he has for breach of his contract of employment.

Directors' interests

A Director shall not vote nor be counted in a quorum at a meeting in relation to any resolution of the Board concerning any contract, arrangement, transaction or proposal in which he is, to his knowledge, directly or indirectly materially interested (including by virtue of the interests of persons connected with him).

The prohibition will not apply to the following:

- 5.8.1 an arrangement for giving a guarantee, security or indemnity in respect of money lent or obligations undertaken by him for the benefit of the Company (or any of its subsidiary undertakings) or in respect of a debt or obligation of the Company (or any of its subsidiary undertakings) for which he has assumed responsibility, in whole or in part, under a guarantee or an indemnity or by the giving of security;
- 5.8.2 a proposal concerning an offer of securities by the Company (or any of its subsidiary undertakings) in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- 5.8.3 a proposal concerning another company in which he is not interested, directly or indirectly, in 1 per cent. or more either of its equity share capital or of its voting rights;
- 5.8.4 an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award the Director a privilege or benefit not generally awarded to the employees to whom the arrangement relates; or
- 5.8.5 a proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons who include Directors.

Subject to the Statutes and provided he has disclosed to the Directors the nature and extent of his interest, a Director may contract with the Company, the contract shall not be avoided on the grounds of his interest or benefit and the Director is not liable to account to the Company for any profit realised as a result of the contract.

A Director may not vote or be counted in the quorum in relation to a resolution of the Directors or committee of the Directors concerning his own appointment, the settlement or variation of the terms or the termination of his own appointment or the appointment of another person to an office in a company in which the Director has a material interest.

Where proposals are under consideration concerning the appointment or the settlement or variation of the terms or the termination of the appointment of two or more Directors, a separate resolution may be put in relation to each Director. In each case, each Director (if not otherwise debarred from voting) is entitled to vote in respect of each resolution except that concerning his own appointment.

5.9 Benefits

The Directors may exercise all the powers of the Company to provide benefits, either by the payment of gratuities or by insurance or otherwise, for any person who is or who has at any time been a Director of the Company (and for any of his relations or dependants).

The Directors may exercise a power conferred by the Statutes to make provision for the benefit of persons employed or formerly employed by the Company or any of its subsidiary undertakings (or any member of his family including a spouse or former spouse or any person who is or was dependent upon him) in connection with the cessation or the transfer to a person of the whole or part of the undertaking of the Company or a subsidiary undertaking.

5.10 *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money, to guarantee, to indemnify and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Directors shall restrict the borrowing of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries with a view to securing (in relation to subsidiaries only in so far as the rights and powers of the Company enable the Directors to do so) that the aggregate amount remaining undischarged of all sums borrowed by the Company and any of its subsidiaries (exclusive of intra-group borrowing) shall not, except with the previous sanction of an ordinary resolution, exceed an amount equal to five times the adjusted share capital and consolidated reserves.

For this purpose, the adjusted share capital and consolidated reserves shall be an amount equal to the aggregate of the amounts standing to the credit of the share capital account of the Company, the consolidated capital and revenue reserves (including a share premium account or capital redemption reserve fund) and the consolidated profit and loss account of the Company and its subsidiaries, all as shown in the latest audited consolidated accounts of the Company and its subsidiaries, but adjusted as may be necessary to take account of an increase in, or reduction of, the share capital or reserves since the date to which the consolidated balance sheet has been made up and distributions (other than to the Company or another subsidiary) out of profits earned down to the date of the balance sheet and not provided for in the balance sheet, excluding sums set aside for taxation and amounts attributable to minority interests in subsidiaries, adjusted in respect of variations in the interest of the Company in its subsidiaries since the date of the balance sheet, adjusted to take account of revaluations of the fixed assets of the Company and its subsidiaries made by independent professional valuers, excluding amounts attributable to goodwill and making any other adjustments which the auditors, after consultation with the Company, consider appropriate.

5.11 *Indemnity of officers*

Subject to the Statutes, the Company may indemnify any Director or other officer or auditor against any liability and purchase and maintain for any Director, other officer or auditor, insurance against any liability. Subject to this, but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every Director or other officer and the auditor will be indemnified out of the assets of the Company against any liability incurred as a Director, officer or as an auditor in defending any proceedings (whether civil or criminal) in which judgment is given in his favour or where he is acquitted or in connection with any application under the Statutes in which relief is granted to him by the court.

5.12 *CREST*

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Ordinary Shares have been made eligible for settlement in CREST by means of a resolution of the Board passed on 3 January 2001, with the necessary notice having been given to all members of the Company at that time, as contemplated by the Uncertificated Securities Regulations 1995. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted, and accordingly enabled for settlement in CREST, as soon as practicable after Admission has occurred.

6. Directors' interests

(a) Interests in the share capital of the Company

As at the date of this document and following Admission, the interests of the Directors, both beneficial and non-beneficial, and (so far as is known to the Directors or could with reasonable diligence be ascertained by them) persons connected with the Directors (within the meaning of Section 346 of the Act), in the share capital of the Company, as required to be notified to the Company pursuant to Sections 324 and 328 of the Act or as required to be shown in the register maintained under Section 325 of the Act, are and will be as follows:

	As at the date of this document		Following Admission	
	No. of Ordinary Shares	Percentage of issued share capital (%)	No. of Ordinary Shares	Percentage of issued share capital (%)
Richard Arthur Parris	4,555,925	39.1	4,555,925	27.85
Jayne Kathryn Murphy	1,087,075	9.3	1,087,075	6.64
Andrew Michael Walker	—	—	133,333	0.81
Jurek Stefan Sikorski	—	—	16,666	0.10
Jonathan Louis Hubbard-Ford	—	—	33,333	0.20

Save as mentioned in this paragraph 6(a) above no Director or any connected persons (within the meaning of section 346 of the Act) of any Director has or will have immediately following Admission any beneficial or non-beneficial interest in the share capital of the Company.

(b) Directorships

The Directors currently hold the following directorships and have held the following directorships within the five years immediately preceding the date of this document:

- (i) Richard Arthur Parris, Chairman and Chief Executive (Age 44)
Current Directorships: Intercede Group plc, Intercede Limited, Intercede 2000 Limited
Past Directorships: Vertical Systems Intercede Limited
- (ii) Jayne Kathryn Murphy, Operations Director (Age 44)
Current Directorships: Intercede Group plc, Intercede Limited
Past Directorships: none
- (iii) Andrew Michael Walker, Finance Director (Age 40)
Current Directorships: Intercede Group plc, Intercede Limited, Intercede 2000 Limited
Past Directorships: Rugby Joinery Limited, RAC 1 Limited, RAC 3 Limited
- (iv) Jurek Stefan Sikorski, Non-Executive Director (Age 49)
Current Directorships: Fluid Technologies Ltd, BioIndustry Association Ltd, SRS Technology Ltd, Intercede Group plc
Past Directorships: Cantab Pharmaceuticals Plc, Proteus Plc
- (v) Jonathan Louis Hubbard-Ford (Age 57)
Current Directorships: Dragnet E-Business Ltd, Landsdowne House (Residents Association) Ltd, Intercede Group plc
Past Directorships: Pegasus Group Plc, Pegasus Software Ltd, CSM Ltd, Pegasus Supplies Limited, Pegasus Educational Services Limited, Pegasus Business Systems Limited, Business & Accounting Software Developers Association, BASDA Business Services Limited, Freecom Professional Limited, Stockforms Limited, Sequel Systems Limited, Federation Against Software Theft Ltd,

Facts Software Limited (dissolved), Brikat Oversea Limited (dissolved), Brikat Commercial Limited (dissolved), Eskdaiil Technical Services Limited (dissolved), Osprey Software Limited (dissolved), Pegasus Business Forms Limited (dissolved)

All the dissolved companies were subsidiaries of Pegasus Group Plc and were dissolved as a result of corporate restructuring when they became non-operating companies.

- (vi) Gregory John Roediger, Non-Executive Director (Age 28)
Current Directorships: Credo Management Services Limited, Credo Capital Plc, Credo Corporate Finance Limited, Credo Financial Solutions (U.K.) Limited, Credo Business Consulting Services Limited, Intercede Group plc, Intercede Limited
Past Directorships: none

(c) *Other information on the Directors*

Save as set out in these paragraphs 2(b) and 2(c), none of the Directors:

- (i) is currently in a partnership or has been a partner in a partnership within the five years immediately preceding the date of this document;
- (ii) has any unspent convictions for any indictable offences;
- (iii) has been declared bankrupt or has made any voluntary arrangement with his creditors;
- (iv) has been a director of a company at the time or within twelve months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration or voluntary arrangement of that company or any composition or arrangement with that company's creditors generally or any class of creditors;
- (v) has been a partner in a partnership at the time of or within twelve months preceding any compulsory liquidation, administration or voluntary arrangement of that partnership;
- (vi) has had any assets which has been subject to a receivership or has been a partner in a partnership at the time or within twelve months preceding as asset of the partnership being subject to a receivership;
- (vii) has been publicly criticised by any statutory or regulatory authority (including any recognised professional body) or has been disqualified by a court from acting as a director of, or in the management or conduct of the affairs of, any company; or
- (viii) has an outstanding loan granted by any member of the Group nor has any guarantee provided to him by any member of the Group for his benefit.

(d) *Terms of employment*

Executive Directors

The following service agreements have been entered into by the Directors:

- (i) a service agreement dated 30 November 2000 between (1) Intercede Limited and (2) Richard Arthur Parris under which he is employed as Chairman and Chief Executive of the Company. The contract is terminable by either party giving 12 months' notice to the other. He is entitled to a salary of £100,000 per annum (subject to annual review). The contract provides that should the Company establish a pension, private medical insurance or permanent health insurance scheme, he will be entitled to participate in them. He is subject to restrictive covenants for a period of 6 months following the termination of his contract;

- (ii) a service agreement dated 30 November 2000 between (1) Intercede Limited and (2) Jayne Kathryn Murphy under which she is employed as Operations Director of the Company. The contract is terminable by either party giving 12 months' notice to the other. She is entitled to a salary of £70,000 per annum (subject to annual review). The contract provides that should the Company establish a pension, private medical insurance or permanent health insurance scheme, she will be entitled to participate in them. She is subject to restrictive covenants for a period of 6 months following the termination of her contract;
- (iii) a service agreement dated 30 November 2000 between (1) Intercede Limited and (2) Andrew Michael Walker under which he is employed as Finance Director of the Company. The contract is terminable by either party giving 12 months' notice to the other. He is entitled to a salary of £80,000 per annum and a car allowance of £5,000 per annum (subject to annual review). The contract provides that should the Company establish a pension, private medical insurance or permanent health insurance scheme, he will be entitled to participate in them. He is subject to restrictive covenants for a period of 6 months following the termination of his contract;

Non-Executive Directors

The following appointment letters have been signed by the non-executive Directors

- (iv) a letter dated 4 December 2000 from (1) Intercede Group plc and (2) Jurek Stefan Sikorski appointing him as a non-executive Director of the Company until 31 December 2001, terminable on three months' notice not to expire before 31 December 2001. He is entitled to a fee of £18,000 per annum, reviewable annually;
 - (v) a letter dated 11 December 2000 from (1) Intercede Group plc and (2) Jonathan Louis Hubbard-Ford appointing him as a non-executive Director of the Company until 31 December 2001, terminable on three months' notice not to expire before 31 December 2001. He is entitled to a fee of £18,000 per annum, reviewable annually; and
 - (vi) the services of Gregory John Roediger are provided pursuant to the engagement letter with Credo Corporate Finance Limited, details of which are set out in paragraph 10.5 of Part IV of this document.
- (e) *Estimate of remuneration*
- The aggregate remuneration paid and benefits in kind granted by the Company or any other member of the Group to the Directors for the financial year ended 31 March 2000 were £222,000, and are estimated under the arrangements currently in force, to amount to approximately £230,000 for the financial year ending 31 March 2001.
- (f) Save as disclosed in paragraphs 6(a) and 7(a) of this Part IV, the Company is not aware of any person who will, immediately following Admission, be interested (for the purposes of section 198 of the Act) directly or indirectly in 3 per cent. or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.
- (g) No Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.

7. Substantial shareholders

As at the date of this document, the Company has been notified pursuant to Part VI of the Act of the following interest in three per cent. or more of the Company's issued share capital held by persons other than a Director:

	<i>No. of Ordinary Shares</i>	<i>Percentage of issued share capital (%)</i>
Cogefin (Bermuda) Ltd	870,925	7.47
Trailford Limited (Gibraltar)	870,925	7.47
React Invest Limited	543,400	4.66
Markland Finance Limited	379,500	3.25
Mastington Investment Limited	379,500	3.25
Tonfield Trading Limited	371,250	3.18
Hampton Investment Limited	370,975	3.18
Transit Securities Inc	369,875	3.17

8. Share Option Plan

The Option Plan will comprise of three parts, namely the Intercede Approved Share Option Plan ("Approved Part"), the Intercede Unapproved Share Option Plan ("Unapproved Part") and the Intercede Enterprise Management Incentive Plan ("EMI Part"). Each part of the Option Plan is in similar form. The Approved Part will be submitted for approval under the relevant provisions of Schedule 9 to the Income and Corporation Taxes Act 1988. The EMI Part is designed to take advantage of the tax benefits which are available under the Enterprise Management Incentive which was introduced in this year's Finance Act. The principal terms of the Option Plan are as follows:

(a) *Administration*

The Option Plan will be administered and the grant of options supervised by the remuneration committee of the Board.

(b) *Eligibility*

The remuneration committee may select employees and directors of the Company and of its subsidiaries (who are not within two years of their normal retirement date) to whom options may be granted over Ordinary Shares.

(c) *Exercise price*

The exercise price per Ordinary Share will not be less than, in the case of the Approved Part, the market value of an Ordinary Share as agreed in advance with the Board of Inland Revenue and in the case of the Unapproved Part and the EMI Part, the average of the middle market quotations for the three dealing days immediately preceding the date of grant as derived from the Alternative Investment Market section of the Stock Exchange Daily Official List or in the case of an option to subscribe, the nominal value of an Ordinary Share if higher.

(d) *Performance conditions*

The exercise of options may be made conditional on the achievement of a specified performance target determined by the remuneration committee when options are granted. The remuneration committee will determine the appropriate performance targets before any grant of options.

(e) *Grant of options*

Options may normally only be granted within 42 days of the announcement by the Company of its interim or final results each year. Options may be granted outside these periods if the Directors consider that there are sufficiently exceptional circumstances to justify the grant of options at that time. No payment is required for the grant of an option. Options may be granted over new shares by the Company or over existing shares by the trustee of any employee share ownership trust established by the Company.

(f) *Limitations on participation*

The Board will determine the level of participation under the Option Plan.

So as to comply with Inland Revenue requirements, an individual's participation under the Approved Part is restricted by limiting the value (as at the date the option is granted) of Ordinary Shares under subsisting options to £30,000 and under the EMI Part is limited to £100,000 or in each case to such other amount as is from time to time specified by legislation.

No more than 15 participants' (or such other number as is from time to time specified by legislation) may hold unexercised qualifying options under the EMI Part at the same time.

Benefits under the Option Plan are not pensionable.

(g) *Exercise of options*

In normal circumstances, an option may only be exercised to the extent that it has vested and, in the case of an option granted subject to the satisfaction of a performance condition, if that performance condition has been satisfied. The options will vest in equal instalments at the end of each year over the period of four years from the date of grant. Vesting will cease on cessation of employment. In the event of a takeover of the Company the unvested balance of the options shall vest. The Board may, prior to grant of the options, determine an alternative vesting schedule.

An option will normally lapse three months after the participant ceases to be an employee of the Group. An option will lapse if the participant ceases to be an employee of the Group by reason of gross misconduct, fraud or dishonesty. If a participant dies, his vested options may be exercised within twelve months after his death.

In the event of a takeover, reconstruction, amalgamation or voluntary winding-up of the Company, vested options may in certain circumstances be exchanged for options over shares in the acquiring company or a company associated with the acquiring company. The performance condition may be waived unless the condition otherwise provides.

When options granted under the Unapproved Part or EMI Part are exercised the Company will account through the PAYE system for the income tax and national insurance contributions (if any) due on the option gain. Participants will be required to reimburse the Company or authorise the company to sell sufficient shares to meet this income tax liability.

The Unapproved Part gives the remuneration committee the discretion when an option is exercised to make a cash payment instead of issuing the option shares. The payment would be the amount by which the market value of the option shares at the date of exercise exceeds the exercise price.

(h) *Terms of options and issue of Ordinary Shares*

Options are neither transferable nor assignable. As soon as practicable after the exercise of an option granted over unissued shares, the appropriate number of Ordinary Shares will be allotted and issued to the option holder. The Ordinary Shares allotted will rank *pari passu* with all other issued Ordinary

Shares of the Company save that they will not rank for any dividend or other rights attaching to such shares by reference to a record date prior to their issue. Existing Ordinary Shares may also be transferred on the exercise of an option.

(i) *Variation of capital*

In the event of a variation of share capital including a capitalisation issue or rights issue or any consolidation, sub-division or reduction of capital of the Company the number and option price of Ordinary Shares subject to options shall be adjusted in such manner as the auditors of the Company confirm in their opinion is fair and reasonable subject, in the case of the Approved Part and the EMI Part, to the prior approval of the Board of Inland Revenue being obtained.

(j) *Amendment and termination*

The Board may make amendments, but no amendment may be made which would adversely affect any rights already acquired by a participant. No alteration to the advantage of participants may be made to provisions relating to the persons to whom options may be granted, the limits on the total number of Ordinary Shares over which options may be granted, the limits on the number of options which may be granted to any participant, the adjustments to be made in the event of a variation of share capital and the periods during or circumstances in which options may be exercised without the prior approval of the Company in general meeting (except for minor alterations to benefit the administration of the Option Plan, to take account of a change in legislation or to obtain or maintain favourable exchange control or regulatory treatment for participants or any member of the Group).

No option may be granted after 30 November 2010.

(k) *Limits on share capital available to the Plan*

In any ten year period the number of unissued Ordinary Shares placed under option under the Option Plan and any other share option schemes of the Company and subscribed pursuant to any other employees' share schemes of the Company (other than any share option scheme) shall not exceed in aggregate 7.5 per cent. of the Company's issued ordinary share capital. For these purposes the options referred to in paragraph 4.9 of this Part IV are ignored.

9. The Company and its subsidiaries

9.1 The Company is the holding company of the Group and has the following subsidiaries:

<i>Name</i>	<i>Principal activity</i>	<i>Issued share capital</i>	<i>Number of ordinary shares of £1 each</i>
Intercede Limited	Software consultancy and supply	£42,420	42,420
Intercede 2000 Limited	Non-trading	£1	1

9.2 The above subsidiaries are wholly-owned by the Company and have their registered office at Lutterworth Hall, St Mary's Road, Lutterworth, Leicestershire LE17 4PS. Each of the subsidiaries are registered in England and Wales and operate principally within the United Kingdom.

10. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group during the two years preceding the date of this document and are or may be material:

- 10.1 The Placing Agreement referred to in paragraph 11;
- 10.2 an agreement dated 4 December 2000 between the Company (1) and all the shareholders of Intercede Limited (2) pursuant to which the Company has agreed to exchange 42,420 ordinary shares of £1 each of Intercede Limited in consideration for 11,665,500 Ordinary Shares;
- 10.3 an agreement dated 4 December 2000 between the Company (1) and Cove Valley Limited ("Cove") (2) pursuant to which the right to repayment of a loan of £450,000 and related convertible loan stock rights in Intercede Limited were transferred to the Company by Cove in consideration for a similar right to repayment of £450,000 and related convertible loan stock rights over 1,086,800 Ordinary Shares to Cove (or its nominees);
- 10.4 an agreement dated 28 November 2000 between the Company (1) and Celtic Trust Company Limited ("Celtic") (2) pursuant to which a facility of up to £500,000 is made available to the Company for an arrangement fee of £5,000. Any amounts drawn down by the Company shall be repayable by the Company in full on 27 November 2001, subject to the right of Celtic to convert such drawn down amounts into Ordinary Shares (up to a maximum of 777,700 Ordinary Shares);
- 10.5 an engagement letter dated 4 December 2000 between the Company (1) and Credo Corporate Finance Limited ("Credo") (2) pursuant to which *inter alia*, on the date of Admission, the Company undertakes to issue warrants to Credo or its nominee to acquire Ordinary Shares equal to 0.5% of the share capital of the Company immediately following Admission at the Placing Price, exercisable before the second anniversary of Admission. In addition Credo shall provide the services of a non-executive director (at present Greg Roediger), for which a fee of £1,000 a month is payable. The engagement is terminable on 30 days' notice by either party; and
- 10.6 an agreement dated 5 January 2001 between the Company (1) and Numis (2) pursuant to which the Company has granted an option to Numis to subscribe for Ordinary Shares equal to 2.5% of the share capital of the Company immediately following Admission at the Placing Price, exercisable before the second anniversary of Admission.

11. Placing Arrangements

By a conditional agreement dated 5 January 2001 made between the Company (1), the Directors (2) and Numis (3), Numis has agreed to use reasonable endeavours, subject, *inter alia*, to the conditions referred to below to procure subscribers for the Placing Shares at the Placing Price and shall use its reasonable endeavours to assist the Company to obtain Admission.

Numis' obligations under the Placing Agreement are conditional upon, *inter alia*, Admission occurring not later than 12 January 2001 (or such later date as Numis and the Company may agree). Under the terms of the Placing Agreement, the Company and the Directors have given certain representations and warranties to Numis relating to the accuracy of the information contained in this document and other matters relating to the Group and its business. The Company has given certain indemnities to Numis and the Directors have given certain tax covenants to, *inter alia*, the companies in the Group. Each of the Directors has also undertaken, subject to certain limited exceptions, not to dispose of any of his holding of Ordinary Shares (and to procure that none of his connected persons will so dispose), including any Ordinary Shares derived therefrom, for a period of 18 months' from the date of Admission in the case of executive Directors and for a

period of 6 months' from the date of Admission in the case of non-executive Directors. In addition, each of the companies listed in paragraph 7 of this Part IV have given undertakings, subject to similar limited exceptions, not to dispose of any of their holdings of Ordinary Shares (and to procure that none of their connected persons will so dispose), including any Ordinary Shares derived therefrom, for a period of 6 months' from the date of Admission. Subject to Admission, the Placing Agreement provides for (i) the payment to Numis of a fee of £80,000 and (ii) the payment to Numis of a commission of 4% of an amount equal to the aggregate value of the Placing Shares being subscribed at the Placing Price. The Company has also agreed to pay all other costs, charges and expenses relating to and incidental to the Placing.

Numis is entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission.

12. United Kingdom taxation

This paragraph is intended as a general guide to the current tax law and practice in the United Kingdom in the areas referred to below. It applies (unless otherwise expressly indicated) to persons who are resident or ordinarily resident in the United Kingdom for tax purposes, who are not share dealers or charities or persons with special tax status and who beneficially own shares as investments. A person who is in doubt as to his tax position or requires further information should consult an appropriate professional adviser.

12.1 United Kingdom taxation of dividends

No tax will be withheld by the Company when it pays dividends under current United Kingdom tax legislation.

12.1.1 Individual and trustee shareholders

12.1.1.1 An individual shareholder, resident for tax purposes in the United Kingdom, who receives a dividend from the Company will be entitled to a tax credit equal to one ninth of the amount of the net dividend which is also equivalent to a tax credit of 10 per cent of the sum of the net dividend and the tax credit (the "gross dividend").

12.1.1.2 Individual shareholders resident for tax purposes in the United Kingdom will be liable to income tax on the amount of the gross dividend. Dividend income will be treated as the top slice of an individual's income. The tax credit referred to in subparagraph 12.1.1.1 above will discharge the liability to income tax in respect of the dividend of an individual shareholder who is subject to United Kingdom income tax at the lower or basic rate only. Higher rate taxpayers will be able to offset the tax credit against their liability to income tax on the gross dividend. A higher rate taxpayer will be liable to income tax on the gross dividend at a rate of 32.5 per cent. After setting off the tax credit, a higher rate taxpayer will be liable to additional income tax equal to 25 per cent of the net dividend. However, if an individual United Kingdom resident shareholder's total tax credit on such dividends exceeds his overall United Kingdom tax liability, he may no longer claim from the Inland Revenue repayment of the excess, unless, for a limited period, the shares are held in an ISA or a PEP.

12.1.1.3 For dividends paid to trustees of United Kingdom resident discretionary or accumulation trusts the gross dividend will be subject to United Kingdom income tax at a rate of 25 per cent with a tax credit equal to 10 per cent of the gross dividend.

12.1.1.4 The amount of the tax credit in respect of a dividend paid which constitutes income of a pension fund, charity or venture capital trust, will not be repaid. Special transitional rates will apply to charities to compensate them, on a phased basis, for the loss of repayable tax credits.

12.1.2 Corporate shareholders

A corporate shareholder (other than a share dealer) resident for tax purposes in the United Kingdom will not generally be liable to United Kingdom corporation tax on dividends received.

12.1.3 Non-resident shareholders

The amount of the tax credit will mean that, in many cases, no amount in respect of the tax credit may be claimed under a relevant double taxation agreement.

12.2 Taxation on capital gains for shareholders

If a shareholder disposes of all or any of his or its Ordinary Shares, he or it may, depending on the shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

The Inland Revenue have confirmed that securities dealt with on AIM will not fall to be treated as listed or quoted securities for tax purposes. There are a number of tax reliefs available for unquoted securities (subject to a number of different requirements in each case) and anyone who requires further information on this should consult an appropriate professional adviser.

12.3 Stamp duty and stamp duty reserve tax ("SDRT")

12.3.1 Except as mentioned in sub-paragraph 12.3.3 below, no liability to stamp duty or SDRT will arise on the issue or allotment of new Ordinary Shares by the Company pursuant to the Placing.

12.3.2 Except as mentioned in sub-paragraph 12.3.3 below, the transfer on sale of the new Ordinary Shares, both before and after the issue of certificates, and the transfer on sale of existing Ordinary Shares will generally be liable to *ad valorem* stamp duty at the rate (in broad terms) of 0.5 per cent. of the amount or value of the consideration paid or, if an unconditional agreement to transfer the shares is not immediately completed by a duly stamped transfer or where the transfer is effected under CREST, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid. Liability to pay the stamp duty or SDRT is that of the transferee or purchaser. In the case of transfers in CREST, SDRT will be collected in CREST in accordance with the rules of the CREST system.

12.3.3 Where a charge to stamp duty or SDRT arises under sections 67, 70, 93 or 96 of the Finance Act 1986 (which broadly apply where ordinary shares are transferred or, in certain circumstances, are issued to persons who issue depositary receipts or provide clearance services, or their nominees or agents), stamp duty at the higher rate (in broad terms) of 1.5 per cent. or SDRT at the higher rate of 1.5 per cent. (as appropriate) will be payable on the amount or value of the consideration paid for the issue or subsequent transfer.

The above comments are intended as a general guide to the current tax position in the United Kingdom and Inland Revenue practice. They apply principally only to shareholders resident in the United Kingdom for tax purposes and who hold their ordinary shares as an investment. If you are not resident in the United Kingdom or are in any doubt as to your tax position, you should consult your own professional adviser.

13. Working Capital

In the opinion of the Directors, having made due and careful enquiry and taking into account existing bank facilities and the proceeds of the Placing, the working capital available to the Company is sufficient for its present requirements, that is, for at least the period of 12 months from Admission.

14. Litigation

No member of the Group is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position nor are the Directors aware of such proceedings pending or threatened against any member of the Group.

15. Overseas Shareholders

The making of an offer to persons who are resident in, or citizens of, countries other than the United Kingdom may be affected by the law or regulatory requirements of the relevant jurisdictions. Any person outside the United Kingdom wishing to acquire Ordinary Shares must satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining and observing any requisite formalities and paying any issue and/or transfer or other taxes due in such territory.

No person receiving a copy of this document in any territory other than the United Kingdom may treat the same as constituting an offer or invitation to him unless, in the relevant territory, such an invitation or offer can lawfully be made to him without the contravention of any registration or other legal requirements.

16. Minimum Subscription

The minimum amount which, in the opinion of the Directors, must be raised by the Company under the Placing is £2.78 million, of which £580,000 will be applied by the Company to pay the expenses (including non-recoverable VAT and commissions) of the Placing and the balance will be applied for working capital.

17. General

- 17.1 Except as set out in Parts I and III of this document, there has been no significant change in the financial or trading position of the Company since 30 September 2000, being the date to which the latest audited accounts of the Company were prepared.
- 17.2 The costs and expenses of and incidental to the Placing payable by the Company are estimated to amount to £580,000 inclusive of VAT. These include but are not limited to accountancy fees, solicitors fees, Numis fees and commission, the cost of printing and advertising the Placing and the fees and expenses of the registrars. In addition Berwin Leighton, the Company's solicitors, are to be allotted 58,333 Ordinary Shares on Admission.
- 17.3 Arthur Andersen have given and have not withdrawn their written consent to the inclusion in Part III of this document of their reports, and the references to such reports and to their name, in the form and context in which they appear.
- 17.4 The financial information set out in this document does not constitute statutory accounts within the meaning of section 240 of the Act. Copies of the audited accounts of the Company for the last 3 financial years have been delivered to the Registrar of Companies. The auditors' reports on those accounts were unqualified and did not contain any statement under Section 237 of the Act.
- 17.5 The subscription list in respect of the Placing will open at 8.00 am on 8 January 2001 and may be closed as soon thereafter as the Directors, in consultation with Numis, may determine.

- 17.6 In making any investment decision in respect of the Placing, no information or representation should be relied on in relation to the Placing, the Group or the Ordinary Shares, other than as contained in this document. No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised. Neither the delivery of this document nor any subscription made under it shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct as of any time subsequent to the date of this document.
- 17.7 Numis is registered in England and Wales under number 2285918 and its registered office is at Cheapside House, 138 Cheapside, London EC2V 6LH. Numis is regulated by The Securities and Futures Authority Limited.
- 17.8 Numis has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context which they appear.
- 17.9 No person (excluding trade suppliers, Close Brothers in respect of a corporate finance advisory fee of £50,000 and professional advisers otherwise disclosed in this document) has:
- 17.9.1 received, directly or indirectly, from the Company within the 12 months preceding the date of this document; or
- 17.9.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission
- any of the following:
- 17.9.2.1 fees totalling £10,000 or more;
- 17.9.2.2 securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
- 17.9.2.3 any other benefit with a value of £10,000 or more at the date of Admission.

18. Documents for inspection

Copies of the following documents may be inspected at the offices of Numis Securities Limited at Cheapside House, 138 Cheapside, London EC2V 6LH and at the Company's registered office, which is at Lutterworth Hall, St Mary's Road, Lutterworth, Leicestershire LE17 4PS, during usual business hours on any weekdays (Saturdays and public holidays excepted) for a period of fourteen days following the date of this document:-

- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited accounts of Intercede Limited for the three financial years ended on 31 March 2000 and the six months ended 30 September 2000;
- (c) the Accountants' Reports contained in Part III, and the related statement of adjustments;
- (d) the rules of the Option Plan and the rules of the Intercede Limited Share Option Plan referred to in paragraph 4.9 of this Part IV;
- (e) the service agreements and contracts with the Directors referred to in paragraph 6 of this Part IV;
- (f) the Placing Agreement and other material contracts referred to in paragraph 10 of this Part IV;
- (g) the letters of consent referred to in paragraphs 17.3 and 17.8 of this Part IV.



Intercede Group plc

Lutterworth Hall • St Mary's Road • Lutterworth • Leicestershire • LE17 4PS

www.intercedegroup.com

