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This document constitutes an AIM admission document relating to Castle Street Investments plc and has been drawn up in accordance with the AIM Rules for Companies. This document does not contain an offer of transferable securities to the public in the United Kingdom within the meaning of section 102B of FSMA and is not required to be issued as a prospectus pursuant to section 85 of FSMA. Accordingly, this document has not been drawn up in accordance with the Prospectus Rules and has not been approved by, or filed with, the FCA or any other authority which would be a competent authority for the purposes of the Prospectus Directive.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.

Application has been made for the Enlarged Issued Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM at 8.00 a.m. on 21 January 2016. The Ordinary Shares are not dealt in on any other recognised investment exchange and no application has been, or is intended to be, made for the Ordinary Shares to be admitted to trading on any other such exchange. It is emphasised that no application is being made for the admission of the Ordinary Shares to the Official List.

The Directors and the Proposed Directors, whose names appear on page 7 of this document, and the Company accept responsibility, both individually and collectively, for the information contained in this document and for compliance with the AIM Rules for Companies. To the best of the knowledge and belief of the Directors, the Proposed Directors and the Company (having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Prospective investors should read the whole text of this document and should be aware that an investment in the Company involves a high degree of risk. In particular, the attention of prospective investors is drawn to Part III of this document which sets out certain risk factors relating to any investment in Ordinary Shares. All statements regarding the Enlarged Group's business, financial position and prospects should be viewed in light of these risk factors.

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## **Castle Street Investments plc**

*(incorporated and registered in Scotland with registered no.SC368538)*

### **Proposed Acquisition of Selection Services Investments Limited Proposed Placing of 100,000,000 new Ordinary Shares at 30 pence per Ordinary Share Admission of the Enlarged Issued Share Capital to trading on AIM and Notice of General Meeting**

*Nominated Adviser & Broker*

**N+1 Singer**

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The Placing is conditional, amongst other things, on Admission taking place on or before 21 January 2016 (or such later date as the Company and N+1 Singer may agree, but in any event not later than 5 February 2016). The New Ordinary Shares will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends or other distributions declared, made or paid after Admission.

The distribution of this document outside the United Kingdom may be restricted by law and therefore persons outside the United Kingdom into whose possession this document comes should inform themselves about and observe any restrictions as to the Admission, the Ordinary Shares and the distribution of this document. This document does not constitute an offer to sell or issue, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. This document should not be copied or distributed by recipients and, in particular should not be distributed, published, reproduced or otherwise made available by any means, including electronic transmission, in, into or from the United States of America, Canada, Australia, the Republic of Ireland, the Republic of South Africa, or Japan or any other jurisdiction where to do so would be in breach of any law and/or regulation. The Ordinary Shares have not been, and will not be, registered in the United States of America under the United States Securities Act of 1933 (as amended) (the "Securities Act") or under the securities laws of any state of the United States of America or under the securities laws of any of Canada, Australia, the Republic of Ireland, the Republic of South Africa, or Japan and, subject to certain exemption, may not be offered or sold, directly or indirectly, within or into the United States of America, Canada, Australia, the Republic of South Africa, or Japan or to, or for the account or benefit of, US persons (as such term is defined in Regulation S under the Securities Act) or to any national, resident or citizen of Australia, the Republic of South Africa or Japan or to any resident of Canada. Neither this document nor any copy of it may be distributed in or sent to or taken into the United States of America, Canada, Australia, the Republic of South Africa, or Japan, nor may it be distributed to any US person (within the meaning of Regulation S under the Securities Act). In addition, the securities to which this document relates must not be marketed into any jurisdiction where to do so would be unlawful. Persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

N+1 Singer, which is authorised and regulated in the United Kingdom by the FCA, is acting as nominated adviser and broker to the Company in connection with the Placing and Admission. Its responsibilities as the Company's nominated adviser under the AIM Rules for Companies are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or Proposed Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. N+1 Singer is acting exclusively for the Company and for no one else in connection with the Placing and Admission. N+1 Singer will not regard any other person (whether or not a recipient of this document) as its customer in relation to the Placing and Admission and will not be responsible to any other person for providing the protections afforded to customers of N+1 Singer or for providing advice in relation to the Placing, Admission or any transaction or arrangement referred to in this document.

The distribution of this document and the Placing in certain jurisdictions may be restricted by law. No action has been taken or will be taken by the Company, the Directors, the Proposed Directors or N+1 Singer to permit a public offer of Ordinary Shares or to permit the possession or distribution of this document in any jurisdiction where action for that purpose may be required. This document may not be distributed in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes are required by the Company, the Directors, the Proposed Directors and N+1 Singer to inform themselves about and to observe any such restrictions. Failure to comply with any such restrictions may constitute a violation of the securities laws of the relevant jurisdiction.

Prospective investors should rely only on the information contained in this document. No person has been authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company, the Directors, the Proposed Directors or N+1 Singer. Without prejudice to the Company's obligations under the AIM Rules for Companies, neither the delivery of this document nor any subscription made this document shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Group since the date of this document or that the information contained in this document is correct as of any time subsequent to the date of this document. N+1 Singer has not authorised the contents of this document and, without limiting the statutory rights of any person to whom this document is issued, no representation or warranty, express or implied, is made by N+1 Singer as to the contents of this document and no responsibility or liability whatsoever is accepted by N+1 Singer for the accuracy of any information or opinions contained in this document or for the omission of any material information from this document, for which the Company, the Directors and the Proposed Directors are solely responsible.

The contents of this document are not to be construed as legal, financial or tax advice. Prospective investors should consult their own professional advisers for legal, financial or tax advice in relation to an investment or proposed investment in Ordinary Shares.

Copies of this document will be available free of charge to the public during normal business hours on any day (except Saturdays, Sundays and public holidays) from the date of this document until the date which is one month after the date of Admission at the offices of the Company and from the Company's website ([castlestreetinvestments.com](http://castlestreetinvestments.com)).

#### **Forward-looking statements**

This document contains statements that are, or may be deemed to be, "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "anticipates", "believes", "could", "envisages", "estimates", "expects", "intends", "may", "plans", "projects", "should", "will" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs and current expectations of the Company, the Directors and the Proposed Directors concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth and strategies of the Company and the industry in which the Enlarged Group operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The actual results, performance or achievements of the Company or developments in the industry in which the Enlarged Group operates may differ materially from the future results, performance or achievements or industry developments expressed or implied by the forward-looking statements contained in this document.

Prospective investors are strongly recommended to read the risk factors set out in Part III of this document for a more complete discussion of the factors that could affect the Company's future performance and the industry in which the Enlarged Group operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

The forward-looking statements contained in this document speak only as at the date of this document. The Company undertakes no obligation to update or revise publicly the forward-looking statements contained in this document to reflect any change in expectations or to reflect events or circumstances occurring or arising after the date of this document, except as required in order to comply with its legal and regulatory obligations (including under the AIM Rules for Companies).

The Ordinary Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any state or other jurisdiction of the United States (including its territories and possessions and the District of Columbia, the "United States") and, subject to certain exceptions, may not be offered or sold within the United States. The Ordinary Shares the subject of the Placing are being offered and sold in the United States only to qualified institutional buyers ("QIBs") as defined in Rule 144A under the Securities Act ("Rule 144A") in private placement transactions pursuant to an exemption

from the registration requirements of the Securities Act. Outside the United States the Ordinary Shares the subject of the Placing are being offered and sold in offshore transactions within the meaning of, and in reliance on, Regulation S under the Securities Act ("Regulation S").

The Ordinary Shares sold to QIBs are "restricted securities" within the meaning of Rule 144 under the Securities Act and may only be resold or transferred in a transaction that is in accordance with the restrictions referred to below under "Notice to investors in the United States".

The Ordinary Shares are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and such state laws pursuant to registration or exemption therefrom. Investors should consult with their counsel as to the applicable requirements for a purchaser to avail itself of any exemption under the Securities Act. Investors whose investment authority is subject to legal restrictions should consult their own legal advisors to determine whether and to what extent an investment in Ordinary Shares constitute legal investments for them. Investors who are located in the United States will be required to deliver a definitive written placing letter pursuant to which they, among other things, will commit to resell the Ordinary Shares only in an offshore transaction (as defined in Regulation S) in compliance with the provisions of Regulation S or to a QIB pursuant to an exemption from registration under the Securities Act.

**THE ORDINARY SHARES HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED UPON THE MERITS OF THE PLACING OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

Neither this document nor any part or copy of it may be taken or transmitted into the United States or distributed, directly or indirectly, in the United States, other than to QIBs.

#### **Notice to investors in the United States**

The Ordinary Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred in the United States except in accordance with an available exemption from registration under the Securities Act and in compliance with any applicable state securities laws.

Each QIB will be required to deliver a definitive written placing letter pursuant to which it, amongst other things, will be required to represent, warrant and agree with the Company and N+1 Singer (among other things) as follows (terms used herein that are defined in Rule 144A or Regulation S are used as so defined):

a) It (i) is a QIB, (ii) is aware, and each beneficial owner of such Ordinary Shares has been advised, that the subscription for Ordinary Shares by it is being made in a private placement transaction pursuant to an exemption from registration under the Securities Act, (iii) is acquiring such Ordinary Shares for its own account or for the account of a QIB for which it is acting as duly authorised fiduciary or agent with sole investment discretion and full authority to make the representations, warranties and agreements included in the placing letter, as the case may be, in each case for investment purposes and not with a view to any resale, transfer or distribution of any such Ordinary Shares, and (iv) is aware that such shares are restricted securities within the meaning of Rule 144 under the Securities Act and may not be deposited into any unrestricted deposit facility in respect of Shares established or maintained by a depositary bank.

b) It understands that the Ordinary Shares have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (i) (a) in offshore transactions complying with Rule 903 or Rule 904 of Regulation S, or (ii) to a QIB pursuant to an exemption from registration under the Securities Act and in compliance with any applicable state law, and that it is required to notify any subsequent purchaser of Ordinary Shares of the resale restrictions referred to herein.

c) It understands that although offers and sales of the Ordinary Shares may be made in the United States to QIBs, they are not being made pursuant to Rule 144A, and the Company is not required to take any action to make the Ordinary Shares eligible for resale pursuant to Rule 144A.

#### **Service of process and enforcement of civil liabilities**

The Company and certain of its directors and officers are resident in, or organised under the laws of, non-US jurisdictions. As a result, it may not be possible for an investor to effect service of process within the United States upon any such person or to enforce, in courts outside the United States, judgments obtained in US courts against any such person, including judgments based upon the civil liability provisions of the US federal securities laws. Furthermore, since all or a significant portion of the assets of the Company and certain of its directors and officers are located outside the United States, any judgment obtained in the United States against any such person may not be collectible within the United States.

**NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

# CONTENTS

	<i>Page</i>
Expected timetable of principal events	6
Admission statistics	6
Directors, Proposed Directors, company secretary and advisers	7
Definitions	8
Glossary of technical terms	12
Part I Letter from the Chairman of Castle Street Investments plc	13
Part II Information on Selection Services Investments Limited	23
Part III Risk factors	27
Part IV Historical Financial information on Castle Street Investments plc	33
Part V Historical Financial Information on Selection Services Investments Limited	34
A. Accountants' Report on the Historical Financial Information of Selection Services Investments Limited	34
B. Financial Information for the three years ended 30 June 2015	36
Part VI Unaudited Pro Forma Statement of Net Assets of the Enlarged Group	68
Part VII Additional information	70
Part VIII Notice of General Meeting	106

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Date of publication of this document	4 January 2016
Latest time and date for receipt of forms of proxy	10.00 a.m. on 18 January 2016
General Meeting	10.00 a.m. on 20 January 2016
Completion of the Acquisition	21 January 2016
Admission effective and dealings in the Enlarged Issued Share Capital expected to commence on AIM	8.00 a.m. on 21 January 2016
CREST accounts credited (where applicable)	21 January 2016
Despatch of definitive share certificates (where applicable)	by 15 February 2016

*Each of the times and dates above is subject to change. Any such change will be notified by an announcement on a Regulatory Information Service.*

## ADMISSION STATISTICS

Issue price per Consideration Share and Placing Share	30 pence
Number of Existing Ordinary Shares	71,201,993
Number of Consideration Shares to be issued	1,353,810
Number of Placing Shares to be issued	100,000,000
Enlarged Issued Share Capital on Admission	172,555,803
Percentage of the Enlarged Issued Share Capital represented by the New Ordinary Shares	58.7 per cent
Gross proceeds of the Placing receivable by the Company	£30.0 million
Market capitalisation of the Company at the Placing Price	£51.8 million
ISIN	GB00B4NJ4984
SEDOL	B4NJ498
TIDM	CSI

## DIRECTORS, PROPOSED DIRECTORS, COMPANY SECRETARY AND ADVISERS

<b>Board of Directors</b>	William ("Bill") Dobbie ( <i>Non-Executive Chairman</i> ) Niall Fraser Stirling ( <i>Chief Financial Officer</i> )* Matthew Max Edward ("Max") Royde ( <i>Non-Executive Director</i> )*
	* To step down on Admission
<b>Proposed Board of Directors on Admission</b>	Edward Jonathan ("Jonathan") Watts ( <i>Non-Executive Chairman</i> ) Andrew ("Andy") Robert Craig Ross ( <i>Chief Executive Officer</i> ) Julian Gerard Powell Phipps ( <i>Chief Financial Officer</i> ) Bill Dobbie ( <i>Non-Executive Director</i> ) Katherine Louise Margiad Ward (née Roe) ( <i>Independent Non-Executive Director</i> )
<b>Company Secretary</b>	Niall Stirling
<b>Company Secretary on Admission</b>	Julian Phipps
<b>Registered Office</b>	Castle Street Investments plc 23 Manor Place Edinburgh EH3 7DX
<b>Nominated Adviser and Broker</b>	Nplus1 Singer Advisory LLP One Bartholomew Lane London EC2N 2AX
<b>Financial Adviser to the Company</b>	MXC Capital Markets LLP 15 Buckingham Gate London SW1E 6LB
<b>Solicitors to the Company</b>	DAC Beachcroft LLP 100 Fetter Lane London EC4A 1BN
<b>Solicitors to the Nominated Adviser and Broker</b>	Pinsent Masons LLP Princes Exchange 1 Earl Grey Street Edinburgh EH3 9AQ
<b>Solicitors to Selection</b>	Gateley Plc One Eleven Edmund Street Birmingham West Midlands B3 2HJ
<b>Reporting Accountants</b>	RSM Corporate Finance LLP 25 Farringdon Street London EC4A 4AB
<b>Registrars</b>	Computershare Investor Services Plc The Pavilions Bridgwater House Bristol BS99 6ZY
<b>Website</b>	<a href="http://www.castlestreetinvestments.com">www.castlestreetinvestments.com</a>

## DEFINITIONS

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

<b>“\$” or “dollars”</b>	US dollars, the lawful currency of the United States of America
<b>“£” or “sterling”</b>	UK pounds sterling, the lawful currency of the United Kingdom
<b>“Accountants’ Report”</b>	the report on the historical financial information relating to Selection prepared by RSM Corporate Finance LLP which is set out in Section A of Part V of this document
<b>“Acquisition Agreement”</b>	the conditional agreement between the Company and the Vendors relating to the Acquisition, details of which are set out in paragraph 12.1(b) of Part VII of this document
<b>“Acquisition”</b>	the Company’s proposed acquisition of the entire issued share capital of Selection pursuant to the terms of the Acquisition Agreement
<b>“Admission”</b>	admission of the Enlarged Issued Share Capital to trading on AIM and such admission becoming effective in accordance with the AIM Rules
<b>“AIM Rules for Companies” or “AIM Rules”</b>	the rules for companies whose securities are admitted to trading on AIM, as published by the London Stock Exchange from time to time
<b>“AIM Rules for Nominated Advisers”</b>	the rules setting out the eligibility requirements, ongoing obligations and certain disciplinary matters in relation to nominated advisers, as published by the London Stock Exchange from time to time
<b>“AIM”</b>	the market of that name operated by the London Stock Exchange
<b>“Articles of Association” or “Articles”</b>	the articles of association of the Company, a summary of certain provisions of which is set out in paragraph 5 of Part VII of this document
<b>“Atos”</b>	Atos SE, a European public limited-liability company (“Societas Europaea”), duly organised and validly existing under the laws of France having its registered office at River Ouest 80, Quai Voltaire, 95870 Bezons, France whose company number at the Commercial registry of Pontoise is 323 623 603
<b>“certificated” or “in certificated form”</b>	in relation to an Ordinary Share, recorded on the Company’s register as being held in certificated form (that is not in CREST)
<b>“Companies Act” or “Act”</b>	the Companies Act 2006, as amended
<b>“Company” or “Castle Street Investments”</b>	Castle Street Investments plc, a company incorporated in Scotland with registered number SC368538
<b>“Completion”</b>	completion of the Acquisition in accordance with the terms of the Acquisition Agreement
<b>“Consideration Shares”</b>	the 1,353,810 new Ordinary Shares to be allotted and issued by the Company to certain of the Vendors pursuant to the Acquisition Agreement



<b>“Corporate Governance Code”</b>	the UK Corporate Governance Code issued by the Financial Reporting Council, as in force from time to time
<b>“CREST Regulations” or “Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time
<b>“CREST”</b>	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the CREST Regulations
<b>“Directors”</b>	the current directors of the Company whose names are set out on page 7 of this document or the directors of the Company from time to time as the context may require
<b>“DTR”</b>	the disclosure and transparency rules made by the FCA under Part 6 of FSMA
<b>“Enlarged Group”</b>	the Company and its subsidiaries (including Selection) following the Acquisition
<b>“Enlarged Issued Share Capital”</b>	the entire issued ordinary share capital of the Company immediately following Admission comprising the Existing Ordinary Shares and the New Ordinary Shares
<b>“Euroclear”</b>	Euroclear UK & Ireland Limited, the operator of CREST
<b>“Existing Ordinary Shares” or “Existing Issued Share Capital”</b>	the 71,201,993 Ordinary Shares that are in issue at the date of this document
<b>“FCA”</b>	the UK Financial Conduct Authority
<b>“FSMA”</b>	the Financial Services and Markets Act 2000, as amended
<b>“General Meeting” or “GM”</b>	the general meeting of the Company to be held at the offices of DAC Beachcroft LLP, 100 Fetter Lane, London EC4A 1BN at 10.00 a.m. on 20 January 2016, notice of which is set out in Part VIII of this document
<b>“Group”</b>	the Company and its subsidiaries prior to Completion
<b>“HMRC”</b>	Her Majesty’s Revenue & Customs
<b>“Independent Shareholders”</b>	holders of Existing Ordinary Shares who are not participating in the Placing
<b>“Locked-in Persons”</b>	means Bill Dobbie, Joseph Rowbotham, Philip Offord and Paul Clark
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“MXC Capital”</b>	MXC Capital Limited (registered in Guernsey with company number 58895 and whose registered office is at 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey GY1 1EW) and any subsidiary or holding company from time to time of MXC Capital Limited, and any subsidiary or holding company from time to time of a holding company or subsidiary of MXC Capital Limited, and each company in the MXC Group is a “member of the MXC Group”

<b>"N+1 Singer"</b>	Nplus1 Singer Advisory LLP, acting as nominated adviser and broker to the Company, and where the context allows, its affiliates
<b>"New Board"</b>	the board of directors at Admission, comprising Jonathan Watts, Bill Dobbie, Katherine Roe, Andy Ross and Julian Phipps
<b>"New Employee Share Scheme" or "LTIP"</b>	the Company's long term incentive scheme, details of which are set out in paragraph 19 of Part VII of this document
<b>"New Ordinary Shares"</b>	the Consideration Shares and the Placing Shares
<b>"Official List"</b>	the Official List of the UK Listing Authority
<b>"Ordinary Shares"</b>	ordinary shares with a nominal value of 2.5 pence each in the capital of the Company
<b>"Placee"</b>	an investor to whom Placing Shares are issued pursuant to the Placing
<b>"Placing Agreement"</b>	the conditional agreement dated 31 December 2015 made between the Company, the Directors, the Proposed Directors and N+1 Singer relating to the Placing and which is summarised in paragraph 12.1(a) of Part VII of this document
<b>"Placing Price"</b>	30 pence per Placing Share
<b>"Placing Shares"</b>	the 100,000,000 new Ordinary Shares to be allotted and issued by the Company pursuant to the Placing
<b>"Placing"</b>	the conditional placing of the Placing Shares with institutional and other investors at the Placing Price pursuant to the Placing Agreement
<b>"Palatine"</b>	Palatine Private Equity LLP
<b>"Proposals"</b>	the Acquisition, the Placing and Admission
<b>"Proposed Directors"</b>	the additional directors of the Enlarged Group to be appointed at Admission, being Andy Ross, Julian Phipps, Jonathan Watts and Katherine Roe
<b>"Prospectus Directive"</b>	EU Prospectus Directive 2003/71/EC including any relevant measure in each member state of the European Economic Area that has implemented Directive 2003/71/EC
<b>"Prospectus Rules"</b>	the prospectus rules made by the FCA under Part 6 of FSMA
<b>"Resolutions"</b>	the resolutions to be put before the Company's shareholders at the General Meeting to be held at the offices of DAC Beachcroft LLP, 100 Fetter Lane, London EC4A 1BN at 10.00 a.m. on 20 January, as set out in Part VIII of this document
<b>"Selection"</b>	Selection Services Investments Limited, a company registered in England and Wales with registered number 02758710
<b>"Selection Group"</b>	Selection and its subsidiaries immediately prior to the acquisition of Selection by the Company as contemplated by the terms of the Acquisition Agreement
<b>"Shareholders"</b>	holders of Existing Ordinary Shares
<b>"Takeover Code"</b>	the City Code on Takeovers and Mergers

<b>“Takeover Panel”</b>	the Panel on Takeovers and Mergers
<b>“UK Listing Authority”</b>	the FCA acting in its capacity as the competent authority for the purposes of Part 6 of FSMA
<b>“uncertificated” or “in uncertificated form”</b>	in relation to an Ordinary Share, recorded on the Company’s register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
<b>“United Kingdom” or “UK”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“VAT”</b>	value added tax
<b>“Vendors”</b>	Palatine Private Equity Fund LP, Palatine Private Equity Investors LP, Gateley Custodian and Nominees Limited, Grahame Harrington, Glenn Carroll, Joseph Rowbotham, Paul Clark, Philip Offord, Mark Woodall, Alan Howarth, Zeus Founder Partner LP and Beechbrook Mezzanine I S.A.R.L.
<b>“Warrants”</b>	the warrants referred to in Part VII, paragraph 12.1(e) in this document
<b>“Warrant Instrument”</b>	the warrant instrument referred to in Part VII, paragraph 12.1(e) in this document

## **GLOSSARY OF TECHNICAL TERMS**

**“VoIP”**

Voice over IP – a methodology for the delivery of voice communications over Internet Protocol networks

**“ITIL”**

Information Technology Infrastructure Library – a set of standards and processes for managing ICT infrastructure

## PART I

### LETTER FROM THE CHAIRMAN OF CASTLE STREET INVESTMENTS PLC

*(Incorporated and registered in Scotland with registered number SC368538)*

4 January 2016

Dear Shareholder,

**Proposed Acquisition of Selection Services Investments Limited  
Proposed Placing of 100,000,000 new Ordinary Shares at 30 pence per Ordinary Share  
Admission of the Enlarged Issued Share Capital to trading on AIM  
and Notice of General Meeting**

#### 1. Introduction

The Company today announced that it had conditionally agreed to purchase the entire issued share capital of Selection. The enterprise value of the Acquisition is £34.8 million payable as to £34.4 million in cash and as to the balance by the issue of 1,353,810 new Ordinary Shares.

In order to part finance the Acquisition, strengthen the balance sheet in line with its future strategy of making targeted acquisitions within the IT solutions and Cloud services sector, and for general working capital purposes, the Company also announced the conditional placing of the Placing Shares at 30 pence per share to raise £30 million before expenses, including a strategic investment in the Company by MXC Capital, a technology focused merchant bank. MXC Capital is subscribing in the Placing for 43,000,000 new Ordinary Shares, representing 24.9 per cent. of the Enlarged Issued Share Capital, alongside certain new and existing institutional investors and certain of Proposed Directors.

Upon completion of the Placing and the Acquisition, the New Ordinary Shares will rank *pari passu* with the Existing Ordinary Shares. Application will be made for the admission of the Enlarged Issued Share Capital to trading on AIM. The Acquisition constitutes a reverse takeover for the purposes of the AIM Rules for Companies and, accordingly, requires Shareholder approval, which is being sought at the General Meeting to be held at the offices of DAC Beachcroft LLP at 100 Fetter Lane, London EC4A 1BN at 10.00 a.m. on 20 January 2016. The Acquisition and Placing are conditional upon, amongst other things, the passing of the Resolutions and Admission which is expected to take place on or around 21 January 2016.

This document contains detailed information about Castle Street Investments, Selection, the Acquisition and the Placing and explains why the Directors consider that the Placing and the Acquisition are in the best interests of the Company and its Shareholders as a whole and recommend that you vote in favour of the Resolutions to be proposed at the General Meeting, notice of which is set out at the end of this document, as they intend to do in respect of their beneficial holdings of 14,683,641 Ordinary Shares, representing 20.6 per cent. of the Existing Issued Share Capital.

#### 2. Background information on Castle Street Investments

The Company was established in 2005 by two founding partners (of which one was Bill Dobbie) and was admitted to trading on AIM on 30 June 2010 as Easydate plc, an internet based dating operator. At this time, through its network of websites, the Company had built a base of over 13 million registrants and over 9 million members in 29 countries. In January 2011, the Company was renamed and rebranded as Cupid plc with a focus on international markets, as well as the UK, and the expansion of its global presence.

In July 2013, the Company completed the disposal of its casual dating business to focus on developing its core traditional dating assets. New opportunities were also identified outside dating with a proposed digital capability adding complementary services. However, in 2014 changes in the dating market accelerated and new applications put pressure on traditional online dating business models. A strategic review of its dating

business in the summer of 2014 led to the sale of the traditional dating assets and, with effect from 24 December 2014, the change of status to an investing company under the AIM Rules.

Since that time the Directors' focus has been on ensuring a smooth exit from the legacy business and related liabilities and turning the Company into a well-capitalised cash shell which could either exploit new opportunities in line with its published investing policy or return cash to shareholders. The gross proceeds of sale of the dating assets amounted to £38.6 million and, as previously announced, the Company's expectation is to close 2015 with a projected cash balance of £22 million after taking account of remaining outstanding liabilities, and excluding the costs associated with the Selection transaction. The Directors believe that the acquisition of the Selection business, as described more fully below, represents an opportunity to redeploy the Company's cash reserves, in combination with an injection of additional capital, within a market sector which is ripe for further consolidation and which offers the prospect of significant returns for existing and new shareholders.

### **3. Background information on Selection**

Selection is a supplier of IT solutions and Cloud related services providing:

- professional, flexible and reliable IT support;
- fully managed IT solutions and Cloud related services;
- bespoke IT project delivery; and
- expert, strategic IT consultancy and advice.

Selection works with a variety of customers throughout the UK, delivering solutions that help clients improve their performance and productivity while reducing costs by deploying a range of IT solutions and related services.

Detailed information on Selection and its business activities is set out in Part II of this document and historical financial information on Selection can be found in Part V of this document.

### **4. Reasons for Acquisition**

In line with its investing policy the Company's stated strategy has been to seek investment in a business with, amongst other characteristics, experienced senior management, good growth opportunities, demonstrated profits, positive cash flows and good revenue visibility. The Directors believe that in Selection they have identified a business that meets these criteria and which represents a strong and stable platform from which to make further acquisitions to supplement organic growth. As such, the Acquisition signals a longer-term strategy to position the Company as a consolidator within the IT services sector, which the Directors and Proposed Directors believe offers ample opportunities for further acquisitive growth.

More specifically, the Directors and Proposed Directors believe that there are greater opportunities to generate longer term shareholder value through the Acquisition than by a return of the Company's cash to shareholders and consider that the opportunity represented by the Acquisition is in the best interests of the Company and Shareholders for the following reasons:

- Structural and technological change has created high growth segments in the IT services market as businesses increasingly look to external providers for outsourced cloud management services, data centre hosting, network services and IT infrastructure modernisation.
- Selection is an established business with significant recurring revenue (c. 65% of total revenues in the last financial year to 30 June 2015) from delivering IT services into a broad client base with improving margin profiles and strong cash generation.
- Selection's service offering and customer engagement model cultivates long-term customer relationships that drive an increasing proportion of contracted revenues.
- Selection's strategy is aligned to the structural trends and growth segments within the IT services market. Data centre, network services and Cloud-based offerings all support the transformation of a

client's IT infrastructure and systems and Selection is increasingly delivering this transformation on an outsourced basis.

- Members of the Selection management team have substantial sector expertise and in depth knowledge of the current client base and target market.

The Directors and Proposed Directors believe that the opportunity exists to increase shareholder value through an acquisition strategy focused on driving consolidation of the fragmented IT solutions and Cloud services sector and in particular extending Selection's capabilities in data centre hosting and network services. The Directors and Proposed Directors believe that increased scale and reach will be necessary in the future to compete in the IT services market. Many of the current players could be regarded as sub-scale and a consolidation strategy provides the opportunity for value creation from revenue and cost synergies. Furthermore, an enlarged business should have a stronger competitive market proposition as a result of a broader portfolio of products and a wider customer base.

## **5. Growth strategy for the Enlarged Group**

The Directors and Proposed Directors believe that the Enlarged Group, with an established IT solutions and Cloud services business, will have a solid platform from which to accelerate growth.

The strategic objectives are to grow through:

- broadening the current customer base;
- cross-selling more services into existing customers; and
- investing in strengthening the current portfolio of products and services, and the New Board will target acquisition opportunities offering data centre hosting, network services and Cloud based solutions.

This will help to position the Company as a consolidator within the IT services sector, which the Directors and Proposed Directors believe offers ample opportunities for further acquisitive growth. The Directors and Proposed Directors believe, consistent with these objectives, that there is an opportunity to build a highly profitable, coherent IT services group with revenues in excess of £100 million within a timeframe of three years.

### ***Organic***

The Directors and Proposed Directors believe that mid-market organisations have historically not been provided with a full service offering by larger IT infrastructure service providers. Many customers thus either utilise a high level of internal resource or have relationships with multiple suppliers. The Directors and the Proposed Directors are of the view that opportunities exist for Selection to service these businesses more effectively, becoming a go-to technology partner of choice with a strategic aim to be able to deliver a broad range of services from owned data centre and network assets.

Selection has also developed a strong relationship with the Service Provider/Systems Integrator Atos, and generates c. 30% of its revenues from this indirect channel to market. Selection currently has 24 separate contracts with Atos and the Directors and Proposed Directors believe there is potential to expand this relationship going forward as well as there being a potential opportunity for Selection to replicate the Atos relationship with other Service Providers/Systems Integrators in the future.

The Directors and Proposed Directors believe that the existing customer base and target market should continue to offer significant opportunities to provide a broad range of IT related services under long term managed services contracts, which will allow Selection to increase the level of recurring revenues within the business and thus strengthen the forward order book.

Selection has made two strategic acquisitions in the last four years which have strengthened its capabilities in Cloud services (Cloud Data Limited) and in network services (Aggregated Telecom Ltd, known as 8el). The Directors and the Proposed Directors believe that these acquisitions have allowed Selection to provide complementary solutions over and above the existing capabilities that already existed in Selection, and this has supported the move into developing longer-term and more complex relationships with the larger end of

the customer base. Selection also delivers a broad range of IT related project-based and procurement services to customers with c. 25% of revenues derived from these activities.

Selection's customer base includes both private and public sector customers, and over the last two years it has invested significantly in building a more capable and effective sales team that can continue to grow the customer base across all sectors.

### ***Acquisitions***

The future strategy of the business is to make targeted acquisitions. Specifically, the aim is to source assets offering data centre infrastructure, network connectivity and managed services, with customers that can be transitioned through the Enlarged Group's offering, or companies that would complement or broaden current skills sets and technology plays. More specifically, the strategy will aim to increase the Enlarged Group's scale and reach whilst adding a broader skills and product portfolio with which to service a larger client base. The New Board intends to target opportunities with potential to improve the Enlarged Group's ratio of recurring revenues, with a focus on improving cash generation and driving margin accretion through synergies.

The New Board believes the potential synergies from execution of this strategy could be significant and support the wider strategic rational. Operating efficiencies from acquisitions could include property consolidation, elimination of corporate overhead and operational rationalisation and greater purchasing power when dealing with product vendors.

Particular focus will be given to data centre hosting, network services, hosted desktop/VoIP, unified communications and managed security. In line with this strategy a number of potential acquisition targets have already been identified that would strengthen the Enlarged Group's portfolio of products and services and support accelerated growth. The New Board will seek to actively engage these targets as soon as practicable following Admission.

## **6. Current trading**

### ***Castle Street Investments***

The Company's recent focus has been to seek to transition into a well-capitalised investment vehicle. The Directors believe that good progress has been made since the last financial year-end to settle outstanding liabilities and residual receivables. Castle Street Investments' cash position, net of liabilities, at 31 December 2015 is expected to be in excess of £22 million (c.30.5 pence per share), before taking account of the costs associated with the Selection transaction.

### ***Selection***

Since the date to which the latest financial information included in this document has been prepared, Selection has continued to trade in line with the Proposed Directors' expectations, winning new business, and securing a place on the government G Cloud 7 contracting framework with the Crown Commercial Service, enabling it to bid for public sector contracts across the UK. As a result of Selection's current capital structure, it continues to incur high default interest charges on the loan stock, leading to a deterioration in net losses versus budget. The loan stock and accrued interest will be settled as part of the Acquisition.

### ***Enlarged Group***

The Directors and the Proposed Directors are encouraged by the trading environment within the wider IT services sector and expect that the combined resources available following completion of the Acquisition represent a strong platform from which the Enlarged Group is well-positioned to prosper.

Additionally, the Company has received an offer from Royal Bank of Scotland plc for a new £7 million revolving credit facility and a £2 million overdraft facility alongside a £10 million accordion post Admission.



## **7. Directors, Proposed Directors and Senior Management**

### ***Directors***

Details of the current directors of Castle Street Investments are as follows:

#### ***Bill Dobbie, aged 56, Non-Executive Chairman***

Bill is an experienced entrepreneur and director specialising in internet, telecoms and technology businesses and founder of Castle Street Investments (formerly Cupid plc). Bill founded Cupid following 7 years at Iomart Group plc in roles spanning founder to non-executive positions.

Bill has been a director of Demon Internet, Prestel, Teledata, Scottish Telecom (Thus) and several other companies. Bill is currently a director of Cloudsoft Corporation, a private entity that produces software for managing public and private cloud infrastructure, and Edinburgh Alternative Finance Ltd, a peer to peer lender. He is also a non-executive director of Tag-Games Ltd, a provider of mobile and social games.

Upon Admission, Bill will step down from his current role as Chairman but will remain as a Non-Executive Director.

#### ***Niall Stirling, aged 58, Chief Financial Officer and Company Secretary***

Niall joined Castle Street Investments (formerly Cupid plc) as Chief Financial Officer in January 2013 and has over 20 years' experience in senior financial and operational roles in branded consumer businesses in the UK, US and across Europe.

After training with Ernst & Young Niall worked at Coca-Cola Schweppes and then as finance director brands for Highland Distillers, owners of The Famous Grouse and The Macallan. As commercial director at Maxxium he set up a premium drinks distributor joint venture turning over £300 million. He then spent 5 years with Red Bull, including 2 years as chief financial officer of Red Bull North America Inc. Prior to joining Castle Street Investments Niall spent 4 years as chief financial officer and then executive director of operations of the Performing Rights Society.

Niall is currently Chief Financial Officer and Company Secretary and will step down as a Director and the Company Secretary upon Admission.

#### ***Max Royde, aged 43, Non-Executive Director***

Max is a partner at Kestrel Partners LLP, a smaller company fund management business. He is also a non-executive director of Gresham Computing plc. Max was appointed as a Director of the Company at the beginning of February 2015 and will step down as a Director upon Admission.

### ***Proposed Directors***

On Admission, it is proposed that the following will be appointed to the board of directors of the Company:

#### ***Jonathan Watts, aged 61, Proposed Non-Executive Chairman***

Jonathan is an experienced board executive with corporate governance experience within the IT, Telecommunications and Banking sector in the UK, Australasia and US. Jonathan was President and Founder of GEO Networks, and has held board positions with Alliance and Leicester, Colt Telecommunications, NB3, Bell South and Control Data Corporation.

#### ***Andy Ross, aged 51, Proposed Chief Executive Officer***

Andy is a partner in MXC Capital and upon Admission will also become Chief Executive Officer of the Enlarged Group. He has over 35 years of experience in the IT industry and has previously held chief executive officer roles at Northgate Managed Services and Valldata, and senior director roles at Atos, EDS, Sema Group and KPMG.

**Julian Phipps, aged 49, Proposed Chief Financial Officer**

Julian is an experienced chief financial officer having spent over 20 years working in the technology sector. He has worked for a number of large IT and Telecommunications businesses including Udata, Northgate Managed Services, Sungard Availability Services and Parity. Prior to working in the technology sector Julian worked for Coopers and Lybrand in Switzerland, Luxembourg and London.

**Katherine Roe, aged 38 (Independent Non-Executive Director)**

Katherine is an experienced Investment Banker having worked at Morgan Stanley and Panmure Gordon. Katherine has extensive experience in advising companies on a range of strategic options, and has worked on multiple IPO launches, equity capital fundraisings and M&A transactions. Katherine is currently Head of Investor Relations and Corporate Communications for Wentworth Resources, a publically listed oil and gas exploration and production company.

**8. Principal terms and conditions of the Acquisition**

On 31 December 2015, the Company entered into the Acquisition Agreement with the Vendors pursuant to which the Company has conditionally agreed to acquire the entire issued share capital of Selection. The consideration for the Acquisition is calculated on the basis of the equity value of Selection as at 31 December 2015 (as per a set of locked box accounts agreed between the Company and the Vendors), being £7.9 million, less the interest payable to certain of Selection's creditors on Selection's outstanding indebtedness with such creditors (the "Indebtedness") for the period from the date of the Acquisition Agreement until Completion. The consideration is to be satisfied as to £7.5 million in cash and £0.4 million in the form of the Consideration Shares to be issued at the Placing Price to certain shareholders of Selection. The Company will also, on Completion, repay the Indebtedness on behalf of Selection, being a payment of £26.9 million.

Pursuant to the terms of the Acquisition Agreement, each Vendor severally warrants, covenants and undertakes to the Company that, except in the case of certain agreed items of permitted leakage, there have been no payments or transfers of value from any Selection Group Company to that Vendor ("Leakage") from the date of the locked box accounts until the date of Completion. Each Vendor is under an obligation to pay to the Company an amount equal to any Leakage on demand, provided that the Company makes such a demand for payment within the 12 month period after Completion.

Completion of the Acquisition Agreement is conditional, amongst other things, upon completion of the Placing, save in respect of the placing proceeds.

The Vendors do not comprise all of the shareholders in Selection, the shareholdings of certain minority shareholders are being acquired by the Company under separate agreements to be entered into pursuant to the terms of the Acquisition Agreement.

Additional information relating to the Acquisition Agreement is set out in paragraph 12.1(b) of Part VII of this document.

**9. Financing of the Acquisition**

The Company will use its existing cash resources along with the proceeds of the Placing to satisfy the cash consideration of £7.5 million payable in respect of the Acquisition as well as repaying Selection's indebtedness, being a payment of £26.9 million. The remaining £0.4 million consideration will be satisfied by the issue of Consideration Shares.

The pro forma statement of net assets of the Enlarged Group set out in Part VI of this document shows pro forma net cash of £13.9 million as at 30 June 2015 after adjusting for the Acquisition.

**10. The Placing and the MXC Warrants**

In order to part fund the cash consideration for the Acquisition and the associated transaction costs, to strengthen the balance sheet in line with its future strategy of making targeted acquisitions within the IT services sector, and for general working capital purposes the Company is seeking to raise £30 million pursuant to the Placing through the issue of the Placing Shares at the Placing Price. The Placing Shares will

represent approximately 57.9 per cent. of the Enlarged Issued Share Capital immediately following Admission. Further details of the Placing Agreement which contains the terms upon which the Placing is being undertaken are described in paragraph 12.1(a) of Part VII of this document. The Placing is not being underwritten. Following Admission the Placing Shares will rank *pari passu* with the Existing Ordinary Shares.

In consideration of MXC Capital's agreement to subscribe in the Placing for 43,000,000 Ordinary Shares to the value of £12.9 million, MXC Capital has been granted evergreen warrants over 5 per cent. of the Enlarged Issued Share Capital at the Placing Price (the "**Warrants**"), subject to adjustment to reflect any further equity issues. Further details of the Warrants and the Warrant Instrument are set out in paragraph 12.1(e) of Part VII of this document.

#### **11. Management incentivisation arrangements**

The Directors and Proposed Directors believe that the success of the Enlarged Group will depend to a high degree on management and other members of staff being appropriately motivated and rewarded. The Enlarged Group is therefore proposing to establish the New Employee Share Scheme, designed to assist in the recruitment, motivation and retention of staff and which, for executive directors and senior managers, carries performance conditions which align the interests of the management team with those of Shareholders.

Participants in the New Employee Share Scheme will be entitled in aggregate to 5 per cent. of future Shareholder value generated, which will be calculated by reference to the growth in the market capitalisation of the Company following Admission over a period of between 3 to 7 years, as adjusted for the issue of new Ordinary Shares after Admission (but excluding any new Ordinary Shares issued pursuant to the New Employee Share Scheme) and taking into account dividends and capital returns, if any. Andy Ross will participate in the New Employee Share Scheme in respect of 2 per cent. of future shareholder value generated and Julian Phipps will participate in the New Employee Share Scheme in respect of 1 per cent. of future shareholder value generated. Further details of the New Employee Share Scheme are set out in paragraph 19 of Part VII of this document.

In addition, it has been resolved that Jonathan Watts will be granted options to the value of £200,000, exercisable at the Placing Price.

#### **12. Lock-ins and orderly market provisions**

The Locked-in Persons have undertaken to the Company and N+1 Singer that, subject to certain limited exceptions, they will not sell or otherwise dispose of, or agree to sell or dispose of, any of their respective interests in the Ordinary Shares held by them and their connected persons at any time during the period of 12 months following Admission. In addition, certain orderly market provisions will apply for a further period of 12 months after expiry of the 12 month lock-in period.

#### **13. Related party transactions**

The participation of Kestrel Partners LLP, a substantial shareholder in the Company, in the Placing constitutes a related party transaction for the purposes of AIM Rule 13 (the "Related Party Transaction").

The independent directors, Niall Stirling and Bill Dobbie, having consulted with the Company's nominated adviser, N+1 Singer, considers that the terms of the Related Party Transaction are fair and reasonable insofar as Independent Shareholders are concerned.

#### **14. The Takeover Code**

The Takeover Code will govern takeover offers for the Company and other matters to which the Takeover Code applies. For further detail, see paragraph 20 of Part VII.

## **15. Working capital**

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

## **16. Dividend policy**

The New Board does not expect to recommend the payment of any dividends in respect of the 2016 financial year during which period, for the reasons set out above, they intend that the Enlarged Group's free cash resources should be deployed in implementing the strategic development plan. The level of any dividends in respect of future financial periods will take account of the Enlarged Group's profitability, current cash position and prospects, whilst also having regard to the future cash demands of the business and its strategy of making targeted acquisitions.

## **17. Corporate governance**

The Directors and the Proposed Directors recognise the value and importance of high standards of corporate governance. Accordingly, whilst the UK Corporate Governance Code does not apply to AIM companies, the Directors and the Proposed Directors intend to continue to observe the requirements of the UK Corporate Governance Code to the extent they consider appropriate in the light of the Group's size, stage of development and resources. The Directors and Proposed Directors also propose, so far as practicable, to follow the recommendations set out in the Corporate Governance Code for Small and Mid-Size Companies published by the Quoted Companies Alliance.

### ***New Board***

The New Board will continue to be responsible for the overall management of the Enlarged Group including the formulation and approval of the Enlarged Group's long term objectives and strategy, the approval of budgets, the oversight of Enlarged Group operations, the maintenance of sound internal control and risk management systems and the implementation of the Enlarged Group's strategy, policies and plans. Whilst the New Board may delegate specific responsibilities, there will be a formal schedule of matters specifically reserved for decision by the New Board; such reserved matters will include, amongst other things, approval of significant capital expenditure, material business contracts and major corporate transactions. The New Board will formally meet on a regular basis to review performance.

At Admission, the New Board is expected to comprise 5 directors, of whom 2 are executive and 3 are non-executive. The New Board considers Jonathan Watts (Non-executive Chairman) and Katherine Roe (Non-executive Director) to be independent for the purposes of the UK Corporate Governance Code.

The New Board will have an audit committee and remuneration committee with formally delegated duties and responsibilities, as described below.

### ***Audit committee***

The audit committee will continue to be responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems, monitoring the effectiveness of the internal audit function and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings).

The audit committee will comprise Jonathan Watts, Bill Dobbie and Katherine Roe and is chaired by Katherine Roe. The audit committee will meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required. The audit committee will also meet regularly with the Company's external auditors.

### ***Remuneration committee***

The remuneration committee will be responsible for determining and agreeing with the New Board the framework for the remuneration of executive directors and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including, where appropriate, bonuses, incentive payments and share options or other share awards. The remuneration of non-executive directors will be a matter for the chairman and the executive members of the New Board. No director will be involved in any decision as to his or her own remuneration.

The remuneration committee will comprise Jonathan Watts, Bill Dobbie and Katherine Roe and is chaired by Katherine Roe. The remuneration committee will meet at least twice a year and otherwise as required.

### ***Share dealing code***

The Company has adopted a share dealing code for the directors and applicable employees of the Enlarged Group for the purpose of ensuring compliance by such persons with the provisions of the AIM Rules relating to dealings in the Company's securities (including, in particular, Rule 21 of the AIM Rules). The Directors and the Proposed Directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM.

The Company will continue to take all reasonable steps to ensure compliance by the directors and applicable employees with the terms of the share dealing code and the relevant provisions of the AIM Rules (including Rule 21).

## **18. General Meeting**

Set out at the end of this document is a notice convening the General Meeting to be held on 20 January 2016 at the offices of DAC Beachcroft LLP at 100 Fetter Lane, London EC4A 1BN at 10.00 a.m., at which the following Resolutions will be proposed for the purposes of:

- approving the Acquisition;
- authorising the Directors to allot the New Ordinary Shares;
- approving the disapplication of statutory pre-emption provisions to enable the directors in certain circumstances to allot the New Ordinary Shares for cash other than on a non-pre-emptive basis; and
- ratifying the dividend paid by the Company in July 2014 and to release all obligations and waive all claims in respect thereof.

## **19. Admission and CREST settlement**

As the Acquisition constitutes a reverse takeover under the AIM Rules for Companies, Shareholder consent to the Acquisition is required at the General Meeting. If the Resolutions are duly passed at the General Meeting, the admission of the Company's Existing Ordinary Shares to trading on AIM will be cancelled (immediately prior to Admission) and the Enlarged Issued Share Capital will be admitted to trading on AIM on Admission.

Application will be made to the London Stock Exchange for the Enlarged Issued Share Capital to be admitted to trading on AIM. Admission is expected to take place at 8.00 a.m. on 21 January 2016.

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the requirements of CREST. The Articles permit the holding and transfer of Ordinary Shares to be evidenced in uncertificated form in accordance with the requirement of CREST. The New Ordinary Shares are eligible for CREST settlement. Accordingly, following Admission, settlement of transactions in Ordinary Shares may take place within the CREST system if the relevant Shareholder so wishes. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

## **20. Irrevocable undertakings**

Insofar as they are interested in Ordinary Shares, Bill Dobbie, Kestrel Partners LLP and Richard Griffiths, together with persons connected with them, have given irrevocable undertakings to the Company to vote in favour of the Resolutions (and, where relevant, to procure that such action is taken by the relevant registered holders if that is not them), in respect of their entire beneficial holdings totalling, in aggregate, 38,930,431 Ordinary Shares, representing approximately 54.7 per cent. of the Existing Issued Share Capital.

Further details of the irrevocable undertakings received by the Company are set out in paragraph 12.1(c) of Part VII of this document.

## **21. Taxation**

Information regarding United Kingdom taxation is set out in paragraph 18 of Part VII of this document. If you are in any doubt as to your tax position, you should consult an appropriate professional adviser immediately.

## **22. Additional information**

Your attention is drawn to the additional information set out in Part VII of this document which contains, among other things, further information on the Enlarged Group.

## **23. Risk factors**

Your attention is drawn to the Risk Factors set out in Part III of this document.

## **24. Action to be taken**

You will find accompanying this document a Form of Proxy for use in connection with the General Meeting. Whether or not you intend to be present at the General Meeting, you are asked to complete the Form of Proxy in accordance with the instructions printed on it so as to be received by the Company's registrars, Computershare Investor Services plc, as soon as possible but in any event not later than 10.00 a.m. on 18 January 2016. Completion of the Form of Proxy will not preclude you from attending and voting at the General Meeting should you so wish.

## **25. Recommendation**

The Directors consider that the Placing and the Acquisition are in the best interests of the Company and Shareholders as a whole. Accordingly, the Directors recommend that you vote in favour of the Resolutions at the General Meeting as they intend to do in respect of their own beneficial holdings amounting, in aggregate, to 14,683,641 Ordinary Shares, representing approximately 20.6 per cent. of the Existing Ordinary Shares.

Yours faithfully

**Bill Dobbie**

*Non-Executive Chairman*

## **PART II**

### **INFORMATION ON SELECTION**

#### **1. Information on Selection**

Selection is an IT solutions and Cloud services company with over 300 IT professionals delivering services to over 500 customers across the UK within both the Public and Private Sectors.

In 2011, Palatine backed a management buy-out that has allowed Selection to grow supported by an ongoing investment program in infrastructure and service capability. Significant investment has been made in ensuring high levels of service quality and Selection has obtained ISO 9001 and ISO 27001 certifications.

Selection has a full range of IT solutions that are delivered from Selection's offices in Croydon, Bromley and Reading with additional Cloud services being delivered from 4 data centres strategically located in and around London.

Selection's portfolio of services includes:

- **Managed Services**
  - Lifecycle Management
  - Infrastructure Monitoring and Management
  - Service Desk
  - Networks
- **Cloud**
  - Managed Private Cloud
  - Self Managed Private Cloud
  - Back up and Recovery
  - Hosted VoIP
  - Systems Management
- **Projects and Products**
  - Project Management
  - On-site Support
  - Consulting
  - Procurement

Growth in turnover and profit has been achieved via a combination of organic growth and the strategic acquisitions of Cloud Data Limited in 2011 and Aggregated Telecom Ltd, known as 8el, in 2013.

#### **2. Operating structure**

Selection has around 370 employees, around 340 of whom are employed in client facing roles either in sales positions or primarily in client service delivery. The sales and marketing team currently has 37 employees.

Selection has 306 staff in technical and service delivery (including service desk). The majority of staff are based in Selection's offices in Croydon, Bromley and Reading or on-site at customer premises. In addition, Selection employs a number of mobile field-based engineers.

The remaining 42 employees are split between central functions, primarily human resources, finance and administration and are based in Croydon and Bromley.

Grahame Harrington (Managing Director) and Mark Woodall (CFO) will both leave Selection upon Completion of the Acquisition. Details of key senior management personnel who will continue to be employed within the Enlarged Group following Completion are set out below:

**Phil Offord – Sales and Marketing Director**

Phil is an experienced sales and marketing professional with a proven track record of transforming sales teams to deliver strong and sustainable sales performance. Prior to joining Selection in 2014 Phil was UK sales director for Logicalis, having previously held senior sales positions at Computer Associates. Phil will remain as Sales and Marketing Director upon Completion.

**Paul Clark – Chief Technology Officer**

Paul is an experienced chief technology officer who has built a career working with significant end user organisations including Game, JP Morgan and Motorola. With experience of IT Managed Services from both a user and provider perspective, Paul has a clear view of how technology can be used to deliver business value. Paul will become Operations Director upon Completion.

**3. Customers and partners**

Selection has approximately 500 customers across both the public and private sectors, with c. 65% of revenues in the year to 30 June 2015 being recurring in nature.

Selection has strong relationships across its customer base, including significant historical length of tenure with many of its key customers. The top 25 customers generated c. 70% of total revenues in the year to 30 June 2015 of which the largest, Atos, generated c.30%. Selection currently has 24 separate contracts with Atos and there is potential to expand this relationship going forward. Other key customers include Accenture, Avis, JO Hambro, KPMG and Nuffield Health.

Selection has different charging mechanisms depending on the nature of the solutions and services being provided to customers:

- IT services and cloud services – predominantly a monthly recurring charge based on delivery of a scope of service to an agreed service level agreement against agreed volumetrics.
- Projects – charged either as fixed price or time and materials.
- Products – typically charged on a cost plus margin basis.

**4. Financial information on Selection**

The following audited financial information relating to Selection has been extracted from the historical financial information set out in Section B of Part V of this document:

	<i>Year Ending</i>		
<i>Revenue £'000s</i>	<i>June 2013</i>	<i>June 2014</i>	<i>June 2015</i>
Managed Services	24,839	26,160	25,454
Projects	4,626	5,491	5,068
Procurement	4,013	4,684	4,022
<b>Total</b>	<b>33,478</b>	<b>36,335</b>	<b>34,544</b>



<i>Gross Profit £'000s</i>	<i>June 2013</i>	<i>Year Ending June 2014</i>	<i>June 2015</i>
Managed Services	9,159	10,273	10,682
Projects	1,684	1,734	1,501
Procurement	918	1,007	1,291
<b>Total</b>	<b>11,761</b>	<b>13,014</b>	<b>13,474</b>

  

<i>Gross Profit %</i>	<i>June 2013</i>	<i>Year Ending June 2014</i>	<i>June 2015</i>
Managed Services	37%	39%	42%
Projects	36%	32%	30%
Procurement	23%	21%	32%
<b>Total Gross Profit %</b>	<b>35%</b>	<b>36%</b>	<b>39%</b>

  

<b>EBITDA</b>	1,992	2,905	3,325
<b>EBITDA %</b>	6.0%	8.0%	9.6%
<b>Net operating cash inflows pre-exceptional costs</b>	2,210	3,141	1,803

The growth in 2014 was predominantly driven by Managed Services with the marginal fall in 2015 largely as a result of a drop in one-off Procurement work.

The gross profit rise in 2015 was driven by Managed Services with c. 80% of gross profit comes from Managed Services

Operating EBITDA increased 45% in 2014 and 15% in 2015 supported by the growth seen in gross margin and the limited increase in overheads.

The low operating cash conversion in 2015 when compared to the previous two years reflects the fall in deferred income and tax and social security creditors.

## 5. Market opportunity and competitive environment

The IT services sector is undergoing substantial structural change driven by a shift towards cloud based technologies and a growing propensity for businesses to outsource the full life cycle of their IT investments. Companies face increasing levels of data traffic and network complexity that increasingly exceeds the scale and capabilities of in-house IT teams. This shift is a key driver of growth in the sector as service providers capitalise on the ability to maximise efficiencies in the provision of technical expertise and the delivery and maintenance of IT systems, enabling corporates to support the delivery of business outcomes and focus resources and capital on core business activities whilst benefiting from the cost effectiveness of the outsourcing model.

A further catalyst is the emergence of cloud services and continued improvements in underlying technology. Demand for cloud services has grown rapidly with awareness of the associated cost, flexibility and reliability benefits. As corporate budgets remain under pressure, the substantial reduction in capital expenditure on IT infrastructure that results from a move to a cloud-based system will continue to drive growth in the segment. A further benefit to the consumer is the greater visibility over IT operating costs derived from long term contracts and service level agreements typical of relationships with managed service providers. This is reflected in greater customer stickiness and improved visibility of revenues for the service provider.

Such contracts typically guarantee network reliability over a specified period, with cloud technology providing the flexibility to scale up system capacity depending on demand. The cost of acquiring and subsequently retaining this capability in house, with the concurrent guarantee of reliability and security, can be prohibitively expensive to lower and mid-market consumers and thus enhances the case for outsourced provision. The long-term, contracted nature of this service provision can deliver a smoother investment

profile to the customer whilst Selection's expertise can reduce the risk associated with major changes to IT infrastructure and systems.

Alongside cloud services and automation recent industry trends also include customer demand for more workforce-led end user support services to link technology, processes and culture and digital transformation as organisations assess the extent to which their existing infrastructure can support digital plans providing further benefits to infrastructure services organisations.

The Directors and Proposed Directors believe Selection's focus on providing a broad range of IT solutions and Cloud services allows access to the growth segments of the market, with customers increasingly planning to divest IT teams and infrastructure to external partners who are able to cope with increasing complexity. The UK Infrastructure Services market represents a substantial opportunity: a report from TechMarketView (published in December 2014) estimates the size of the UK Infrastructure Services market at £13.8bn, making it c.40% of the total UK Software and IT Services market.

Selection has a number of competitors including Computacenter, SCC, Kelway, Daisy Group, ANS Group, Intrinsic Technology and Esteem. The Directors and Proposed Directors believe that larger IT service providers with full lifecycle capabilities are generally more inflexible and often cannot meet the needs of the market as effectively as the smaller service providers. The Directors and Proposed Directors believe that Selection's competitive advantage lies in its ability to offer a range of services that cover the entire infrastructure lifecycle and its track record of managing the delivery of transformational infrastructure projects.

Within the IT services sector, cloud and infrastructure services are highly fragmented and high levels of corporate activity persist. The Directors and Proposed Directors believe that Selection should be well positioned to take advantage of this trend in a market that presents multiple attractive acquisition opportunities. The Directors and Proposed Directors believe this strategy will enhance Selection's competitive advantage.

## **PART III**

### **RISK FACTORS**

This document contains forward looking statements, which have been made after due and careful enquiry and are based on the Directors' and the Proposed Directors' current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. These forward-looking statements are subject to, amongst other things, the risk factors described in this Part III. The Directors and Proposed Directors believe that the expectations reflected in these statements are reasonable, but they may be affected by a number of variables which could cause actual results or trends to differ materially. Each forward-looking statement speaks only as of the date of the particular statement.

Factors that might cause a difference include, but are not limited to, those discussed in this Part III. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. The Company disclaims any obligation to update any such forward looking statements in the document to reflect future events or developments.

Prior to making an investment decision in respect of the Ordinary Shares, prospective investors should consider carefully all of the information within this document, including the risk factors set out in this Part III. The Directors and Proposed Directors believe these risks to be the most significant for potential investors. However, the risks listed do not necessarily comprise all those associated with an investment in the Company. In particular, the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory and/or tax requirements. The risks listed are not set out in any particular order of priority.

If any of the following risks were to materialise, the Enlarged Group's business, financial condition, results or future operations could be materially and adversely affected. In such cases, the market price of the Ordinary Shares could decline and an investor may lose part or all of his investment. Additional risks and uncertainties not presently known to the Directors and Proposed Directors or which the Directors and Proposed Directors currently deem immaterial, may also have an adverse effect upon the Enlarged Group and the information set out below does not purport to be an exhaustive summary of the risks affecting the Enlarged Group.

#### **1. The Acquisition may not complete**

Completion of the Acquisition is subject to the approval of the Acquisition by the Shareholders at the General Meeting and Admission. If Shareholders do not approve the Acquisition at the General Meeting, the Acquisition will not complete.

#### **2. The ability of the Enlarged Group to identify and complete further suitable acquisitions**

The Enlarged Group's strategy is dependent on its ability to successfully identify and integrate complementary acquisitions into its existing business. Although the Directors and Proposed Directors believe there are attractive acquisition opportunities in the Enlarged Group's core markets, there can be no guarantee that the Enlarged Group will succeed in identifying acquisitions in line with its strategy. The Enlarged Group may be unable to identify targets at valuations that the New Board believe will deliver sufficient returns for Shareholders. Even if the Enlarged Group successfully identifies targets the process remains subject to execution risk and there is no guarantee that acquisitions will complete. Inability to identify and complete further acquisitions may have an adverse effect on the returns generated for Shareholders.

### **3. Change of Control**

There are change of control provisions in certain agreements that members of the Selection Group have entered into with customers, some of which are agreements with Selection Group's material customers. As a result of the Acquisition, the contracting third party may be entitled to terminate these agreements. If any such customer terminates their contract with the relevant member of the Selection Group, or if any such customer uses it as an opportunity to renegotiate more onerous terms, it may have a material adverse effect on the Enlarged Group's financial performance.

### **4. The ability of the Enlarged Group to successfully integrate further acquisitions and increase the valuation of any business acquired**

There can be no assurance that, where the Enlarged Group completes an acquisition, the board of directors of the Company will be able to successfully integrate it into the existing business. Issues may arise following an acquisition which prevents the full realisation of benefits arising from the transaction which may include, without limitation, expected cost savings and synergies. Failure to fully realise these benefits could be detrimental to the operating results and financial condition of the Enlarged Group.

The Enlarged Group's acquisition strategy may also be affected by factors such as economic and market conditions that could impact the strategic fit and rationale of any acquisitions and therefore make the Enlarged Group's operating strategies difficult to implement. Any failure to implement these strategies successfully and/or the failure of these strategies to deliver the anticipated benefits for the underlying business and the Enlarged Group's interest therein could have a material adverse effect on the Enlarged Group's results of operations and could result in the Company failing to achieve its target return for Shareholders.

### **5. Market Competition**

The market in which the Enlarged Group operates is fragmented and competitive and may become more competitive. It is possible that developments by others will render the Enlarged Group's current and proposed products and services obsolete.

The Directors and the Proposed Directors believe that the Enlarged Group's services and marketing strategy are targeted at markets where the Company and Selection have previously been successful in achieving market penetration.

The Enlarged Group's competitors may announce or develop new products, services or enhancements that better meet the needs of customers or changing industry standards. Further, new competitors, or alliances among competitors, could emerge. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Enlarged Group's business, financial condition and results of operations.

Many of the Enlarged Group's competitors and potential competitors have significantly greater financial, technical, marketing, service or resources than the Enlarged Group and have a larger base of products, longer operating histories or greater name recognition. The Enlarged Group's relatively smaller size may therefore be considered negatively by prospective customers. In addition, the Enlarged Group's competitors may be able to respond more quickly than the Enlarged Group can to changes in customer requirements and devote greater resources to the enhancement, promotion and sale of their products and to the development of new products.

Although the Directors and the Proposed Directors believe that the Enlarged Group will compete favourably in its targeted markets, there can be no assurance that the Enlarged Group can maintain its competitive position against current and any potential competitors, especially those with greater financial, marketing, service, support, technical and other resources.

The Directors and the Proposed Directors believe that the market for the Enlarged Group's products and services will continue to grow, however, there can be no assurance that growth in the market for its products and services will occur, or occur at the rate envisaged by the Directors and the Proposed Directors.

## **6. Achievement of strategic aims**

The value of an investment in the Enlarged Group is dependent on the Enlarged Group achieving its strategic aims. The Enlarged Group's strategy is outlined in Part I and Part II of this document. While the Directors and the Proposed Directors are optimistic about the prospects for the Enlarged Group, there is no certainty that it will be capable of achieving its strategy or the anticipated revenues or growth or be profitable. The Enlarged Group's future operating results will be highly dependent upon how well it manages its planned expansion strategy.

## **7. Technological change**

The markets for the Enlarged Group's products are characterised by rapidly changing technology, and increasingly sophisticated customer requirements. Changing customer requirements and the introduction of products embodying new technology may render the Enlarged Group's existing products obsolete and unmarketable and may exert downward pressures on the pricing of existing products. It is critical to the success of the Enlarged Group to be able to anticipate changes in technology or in industry standards and to successfully develop and introduce new, enhanced and competitive offerings on a timely basis. The Enlarged Group cannot give assurances that it will successfully develop new offerings or enhance and improve its existing offerings, that new offerings and enhanced and improved existing offerings will achieve market acceptance or that the introduction of new offerings or enhancing existing offerings by others, or changing customer requirements, will not render the Enlarged Group's offerings obsolete. The Enlarged Group's inability to develop offerings that are competitive in technology and price and that meet customer needs could have a material adverse effect on the Enlarged Group's business, financial condition or results of operations.

## **8. An impairment of goodwill or other intangible assets would adversely affect the Enlarged Group's financial condition and result of operations**

Upon completion of the Acquisition, a portion of the difference between the purchase price, Selection's net assets at that date and the allocation of costs of the combination of assets acquisition and the liabilities assumed, will be recorded as goodwill. In addition, other intangible assets will be recorded as a result of the purchase price allocation. Under International Financial Reporting Standards, goodwill and intangible assets with indefinite lives are not amortised but are tested for impairment annually, or more often if any event or circumstance indicates that an impairment loss may have been incurred. Other intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives and reviewed for impairment whenever there is an indication of impairment. In particular, if the combination of the businesses meets with unexpected difficulties, or if the business of the Enlarged Group does not develop as expected, impairment charges may be incurred in the future which could be significant and which could have an adverse effect on the Enlarged Group's results of operations and financial condition.

## **9. Financial resources**

The Enlarged Group's future capital requirements will depend on many factors, including its ability to maintain and expand its customer base, its sales, cash flow and control of costs and the execution of any material acquisitions. In the future, the Enlarged Group may require additional funds and may attempt to raise additional funds through equity or debt financings or from other sources. Any additional equity financing may be dilutive to holders of Ordinary Shares and any debt financing, if available, may require restrictions to be placed on the Enlarged Group's future financing and operating activities. The Enlarged Group may be unable to obtain additional financing on acceptable terms or at all if market and economic conditions, the financial condition or operating performance of the Enlarged Group or investor sentiment (whether towards the Enlarged Group in particular or towards the market sector in which the Enlarged Group operates) are unfavourable. The Enlarged Group's inability to raise additional funding may hinder its ability to grow in the future or to maintain its existing levels of operation.

#### **10. Contingent Liabilities**

Following the disposal by the Company of the dating assets of the business in 2013 and 2014 and the resulting cessation of trade, estimations of liabilities associated with the settlement of intellectual property infringement claims, labour disputes, onerous lease contracts, legal and warranty claims, and taxation were made. In each of these matters some degree of judgement was necessarily applied and where appropriate the Directors have sought external advice. The Company has made provisions which due to their nature are judgemental. While the provisions reflect the Directors' best estimates of the likely outflow of funds there is a risk that additional amounts may be payable in a worst case scenario.

#### **11. Dependence upon key management personnel and executives**

The Enlarged Group is dependent on a small number of key management personnel. The loss of the services of one or more of such key management personnel may have an adverse effect on the Enlarged Group. The Enlarged Group's ability to manage its financing and development activities will depend in large part on the efforts of these individuals. The Company intends to incentivise identified key executives and managers with the New Employee Share Scheme, as detailed further in Part VII.

#### **12. Ability to attract employees**

The Enlarged Group depends on qualified and experienced employees to enable it to generate and retain business. Should the Enlarged Group be unable to attract new employees or retain existing employees this could have a material adverse effect on the Enlarged Group's ability to grow or maintain its business.

#### **13. The Enlarged Group will be dependent on UK, continental and other global economic conditions**

The Enlarged Group's performance depends to a significant extent on a number of macroeconomic factors which impact consumer and commercial spending, all of which are outside its control and difficult to predict. Factors which impact on consumer income and level of industrial activity include, among other things, GDP growth, unemployment rates, consumer and business confidence, social and industrial unrest, the availability and cost of credit, interest rates, taxation, regulatory changes, commodity and utility prices and terrorist attacks. Each of these factors could have a material adverse effect on the Enlarged Group's business, financial condition and future prospects. If current volatile market conditions in the UK persist or worsen, the Enlarged Group's business and operating results could be materially and adversely impacted. Since the start of the global financial crisis in 2008, the global economy has been experiencing a period of significant turbulence. Although a number of economies have and continue to enjoy a degree of recovery, there can be no certainty that national or international growth rates are sustainable. Accordingly, the demand for the Enlarged Group's products may be adversely affected by a period of slow economic growth, which could have a material adverse effect on the future growth prospects, profitability and financial condition of the Enlarged Group's business.

#### **14. Commercial Contracts**

Members of the Enlarged Group have and will continue to engage with customers and suppliers with more negotiating leverage than is available to the Enlarged Group. The standard commercial terms of such entities may not be subject to negotiation and the Enlarged Group may tolerate terms which are less favourable than might be anticipated. If for any reason the Enlarged Group comes to breach such terms, the financial and operational penalties could be severe and have a material adverse impact on the operations, financial condition and outlook of the Enlarged Group.

#### **15. Investment in AIM securities**

Although the Company is applying for the admission of its share capital to trading on AIM, there can be no assurance that an active trading market for the Ordinary Shares will develop, or if developed, that it will be maintained. Investment in shares traded on AIM is perceived to involve a higher degree of risk than investment in a company whose shares are listed on the Official List of the UK Listing Authority. An investment in the Ordinary Shares may be difficult to realise. Prospective investors should be aware that

the value of the Ordinary Shares may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Enlarged Group. Investors may therefore realise less than, or lose all of, their investment.

#### **16. Litigation risks**

All industries are subject to legal claims, with and without merit. The Enlarged Group may become involved in legal disputes in the future. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material effect on the Enlarged Group's financial position or results of operations.

#### **17. Volatility of share price**

The trading price of the Ordinary Shares may be subject to wide fluctuations in response to a number of events and factors, such as variations in operating results, announcements of or new services by the Enlarged Group or its competitors, changes in financial estimates and recommendations by securities analysts, the share price performance of other companies that investors may deem comparable to the Company and news reports relating to trends in the Enlarged Group's markets. These fluctuations may adversely affect the trading price of the Ordinary Shares, regardless of the Enlarged Group's performance.

#### **18. Estimates in financial statements**

Preparation of consolidated financial statements requires the Enlarged Group to use estimates and assumptions. Accounting for estimates requires the Enlarged Group to use its judgment to determine the amount to be recorded on its financial statements in connection with these estimates. The Enlarged Group's accounting policies require management to make certain estimates and assumptions as to future events and circumstances. In addition, the carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. If the estimates and assumptions are inaccurate, the Enlarged Group could be required to write down the value of certain assets. On an ongoing basis, the Enlarged Group re-evaluates its estimates and assumptions. However, the actual amounts could differ from those estimates and assumptions.

#### **19. Restrictions on dividends**

The Company's operating results and its financial condition are dependent on the trading performance of members of the Enlarged Group. Members of the Enlarged Group may from time to time be subject to restrictions on their ability to make distributions to the Company, as a result of factors such as restrictive covenants contained within loan agreements, foreign exchange limitations, regulatory, fiscal or other restrictions. There can be no assurance that such restrictions will not have a material adverse effect on the Enlarged Group's business, operating results and financial condition.

There can be no assurance as to the level of future dividends. The declaration, payment and amount of any future dividends of the Company will be subject to the discretion of the directors of the Company from time to time, and will depend on, amongst other things, the Company's earnings, financial position, cash requirements and availability of profits.

#### **20. Possible conflicts of interest of Directors and officers of the Company**

The Company expects that any decision made by its directors and officers involving the Company will be made in accordance with their duty to act honestly and in good faith with a view to the best interests of the Company and exercise the care, diligence and skill which a reasonably prudent person would exercise in comparable circumstances but there can be no assurance in this regard. In addition, each of the directors is required to declare any matter in which they are interested as required by the Companies Act.

## **21. Investment Risk**

An investment in the Company is highly speculative, involves a considerable degree of risk and is suitable only for persons or entities which have substantial financial means, who could afford to lose part or all of their investment and who can afford to hold their ownership interests for an indefinite amount of time.

## **22. Ordinary Shares available for future sale**

The Company is unable to predict whether substantial amounts of Ordinary Shares will be sold in the open market following Admission. Any sales of substantial amounts of Ordinary Shares in the public market, or the perception that such sales might occur, could materially and adversely affect the market price of the Ordinary Shares.

## **23. Suitability**

The investment described in this document may not be suitable for all those who receive it. Before making a final decision, investors who are in any doubt are advised to consult their stockbroker, bank manager, solicitor or accountant or other professional adviser authorised under the FSMA who specialises in advising on the acquisition of shares and other securities in the United Kingdom.

## **24. Certain Shareholders will continue to have substantial control over the Company following Admission**

Following Admission, the Directors, the Proposed Directors, and any persons connected with them (within the meaning of section 252 of the Companies Act) and principal Shareholders who hold three per cent. or more of the Enlarged Issued Share Capital and whose names are set out in paragraph 7 of Part VII will beneficially own, in aggregate, approximately 72.2 per cent. of the Enlarged Issued Share Capital. As a result, these Shareholders will be able to exercise significant influence over the Enlarged Group and the Enlarged Group's operations, business strategy and those corporate actions that require the approval of the Shareholders.

The risks listed above do not necessarily comprise all those faced by the Enlarged Group and are not intended to be presented in any order of priority.



## PART IV

### HISTORICAL FINANCIAL INFORMATION ON CASTLE STREET INVESTMENTS PLC

Published report and accounts for each of the three financial years ended 31 December 2012, 31 December 2013 and 31 December 2014 and an interim statement for the six months ended 30 June 2015.

#### Historical financial information

- Pursuant to Rule 28 of the AIM Rules for Companies, the published Annual Report and Accounts of the Company for each of the three financial years ended 31 December 2014 and the unaudited 6 month period ending 30 June 2015 are not reproduced in this document and have been incorporated into this document by reference.
- The accounts for each of the three financial years ended 31 December 2012, 31 December 2013 and 31 December 2014 and the unaudited 6 month period ending 30 June 2015 were prepared under International Financial Reporting Standards, as adopted by the EU ("IFRS").
- The Annual Report and Accounts for each of the three financial years ended 31 December 2012, 31 December 2013 and 31 December 2014 and the unaudited 6 month period ending 30 June 2015 include, on the pages specified in the table below, the following information:

<i>Nature of information</i>	<i>For the year to 31 December</i>			<i>For the six months to 30 June</i>
	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
	<i>Page</i>	<i>Page</i>	<i>Page</i>	<i>Page</i>
Independent auditors' report	27	33	20	n/a
Consolidated statement of comprehensive income	28	35	21	3
Consolidated statement of financial position	29	36	22	4
Consolidated cash flow statement	31	38	24	6
Consolidated statement of changes in equity	30	37	23	5
Notes to the financial statements	32	39	25	7

- Bruce Marks of KPMG Audit Plc is a member of the Institute of Chartered Accountants of Scotland and has issued unqualified audit opinions on the consolidated financial statements of Castle Street Investments and its subsidiaries included in the Annual Report and Accounts of Castle Street Investments for each of the two financial years ended 31 December 2012 and 31 December 2013.

Hugh Harvie of KPMG LLP is a member of the Institute of Chartered Accountants of Scotland and has issued unqualified audit opinions on the consolidated financial statements of Castle Street Investments and its subsidiaries included in the Annual Report and Accounts of Castle Street Investments for the financial year ended 31 December 2014.

The published accounts can be viewed on the Company's website at: [www.castlestreetinvestments.com](http://www.castlestreetinvestments.com)

## PART V

### HISTORICAL FINANCIAL INFORMATION ON SELECTION SERVICES INVESTMENTS LIMITED

#### A: ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF SELECTION SERVICES INVESTMENTS LIMITED

The following is the full text of a report on Selection Services Investments Limited from RSM Corporate Finance LLP the Reporting Accountants, to the Directors and Proposed Directors of Castle Street Investments plc.

The Directors and Proposed Directors  
Castle Street Investments plc.  
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EH3 7DX

  
**RSM**  
RSM Corporate Finance LLP  
25 Farringdon Street  
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T +44 (0)20 3201 8000  
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www.rsmuk.com

4 January 2016

Dear Sirs,

#### Castle Street Investments plc. ("the Company")

We report on the consolidated historical financial information of Selection Services Investments Limited ("the Selection Group") for the three years ended 30 June 2015 set out in Section B of Part V of the Admission Document dated 4 January 2016 ("Admission Document") of Castle Street Investments Plc. This consolidated historical financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out at Note 1 to the historical financial information. This report is required by paragraph 20.1 of Annex I of Appendix 3.1.1 of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under paragraph 20.1 of Annex I of Appendix 3.1.1 of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by law, we do not accept or assume responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 20.1 of Annex I of Appendix 3.1.1 of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules, or consenting to its inclusion in the Admission Document.

#### Responsibilities

The Directors and Proposed Directors of the Company are responsible for preparing the consolidated historical financial information in accordance with International Financial Reporting Standards as adopted by the European Union as described at Note 1.1 to the historical financial information.

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

#### Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom. Our work included an assessment of evidence relevant to the

amounts and disclosures in the consolidated historical financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the consolidated historical 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 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 consolidated historical financial information gives, for the purposes of the Admission Document a true and fair view of the state of affairs of the Selection Group as at the dates stated and of its profits/losses, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Declaration**

For the purposes of part (a) of Schedule Two to the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with item 1.2 of Annex I and item 1.2 of Annex III of Appendix 3.1.1 of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules.

Yours faithfully

**RSM Corporate Finance LLP**

## B: HISTORICAL FINANCIAL INFORMATION ON THE SELECTION GROUP

### Consolidated statement of comprehensive income for the years ended 30 June

	Note	2013 £000	2014 £000	2015 £000
<b>Continuing operations</b>				
Revenue	3	33,478	36,335	34,544
Cost of sales	4	(21,717)	(23,321)	(21,070)
<b>Gross profit</b>		<u>11,761</u>	<u>13,014</u>	<u>13,474</u>
Administrative costs	4	(12,412)	(13,205)	(12,140)
<b>Adjusted EBITDA<sup>#</sup></b>		<u>1,992</u>	<u>2,905</u>	<u>3,325</u>
Exceptional costs	6	(1,623)	(1,909)	(710)
Depreciation	12	(1,020)	(1,187)	(1,281)
<b>Operating (loss)/profit</b>		<u>(651)</u>	<u>(191)</u>	<u>1,334</u>
Other income	8	–	–	151
Finance income	9	1	–	–
Finance costs	9	(1,890)	(2,215)	(2,505)
<b>Loss before taxation</b>		<u>(2,540)</u>	<u>(2,406)</u>	<u>(1,020)</u>
Taxation	10	8	69	(172)
<b>Loss and total comprehensive loss for the financial year attributable to equity holders of the company</b>		<u>(2,532)</u>	<u>(2,337)</u>	<u>(1,192)</u>

# Total result for the year from Continuing Operations before net finance costs, depreciation, exceptional costs, goodwill impairment and taxation

No other comprehensive income has arisen in the three years ended 30 June 2015

**Consolidated statement of financial position**  
**as at 30 June**

	<i>Note</i>	<i>2013</i> <i>£000</i>	<i>2014</i> <i>£000</i>	<i>2015</i> <i>£000</i>
<b>Non-current assets</b>				
Intangible assets	11	2,444	2,345	2,345
Property, plant and equipment	12	2,303	1,821	1,847
Other non-current assets	13	479	479	632
Deferred tax	10	314	383	211
<b>Total non-current assets</b>		<u>5,540</u>	<u>5,028</u>	<u>5,035</u>
<b>Current assets</b>				
Inventory	14	33	24	–
Trade receivables	15	6,544	6,436	6,245
Cash and cash equivalents	16	813	–	–
<b>Total current assets</b>		<u>7,390</u>	<u>6,460</u>	<u>6,245</u>
<b>Total assets</b>		<u>12,930</u>	<u>11,488</u>	<u>11,280</u>
<b>Current liabilities</b>				
Trade and other payables	17	7,676	8,506	9,645
Deferred income	18	3,742	4,229	3,359
Bank overdraft		–	293	1,274
Finance leases	21	229	234	349
Borrowings	19	682	807	807
Provisions	22	612	425	202
<b>Total current liabilities</b>		<u>12,941</u>	<u>14,494</u>	<u>15,636</u>
<b>Non-current liabilities</b>				
Borrowings	19	20,159	19,718	19,564
Deferred consideration	20	250	151	–
Finance leases	21	295	177	324
Provisions	22	672	672	672
<b>Total non-current liabilities</b>		<u>21,376</u>	<u>20,718</u>	<u>20,560</u>
<b>Net liabilities</b>		<u>(21,387)</u>	<u>(23,724)</u>	<u>(24,916)</u>
<b>Equity</b>				
Share capital	24	5	5	5
Share premium		483	483	483
Merger reserve		(19,150)	(19,150)	(19,150)
Retained losses		(2,725)	(5,062)	(6,254)
<b>Total deficit attributable to equity holders of the company</b>		<u>(21,387)</u>	<u>(23,724)</u>	<u>(24,916)</u>

**Consolidated statement of changes in equity**  
**for the years ended 30 June**

	<i>Attributable to equity holders of the company</i>				
	<i>Share capital</i>	<i>Share premium</i>	<i>Merger Reserve</i>	<i>Retained Losses</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Balance at 1 July 2012</b>	5	478	(19,135)	(193)	(18,845)
Loss for the financial year	—	—	—	(2,532)	(2,532)
<b>Loss and total comprehensive loss for the financial year</b>	—	—	—	(2,532)	(2,532)
Transaction with equity shareholders	—	5	—	—	5
Adjustment on prior period acquisition of Selection Services Limited	—	—	(15)	—	(15)
<b>Balance at 30 June 2013</b>	5	483	(19,150)	(2,725)	(21,387)
Loss for the financial year	—	—	—	(2,337)	(2,337)
<b>Loss and total comprehensive loss for the financial year</b>	—	—	—	(2,337)	(2,337)
<b>Balance at 30 June 2014</b>	5	483	(19,150)	(5,062)	(23,724)
Loss for the financial year	—	—	—	(1,192)	(1,192)
<b>Loss and total comprehensive loss for the financial year</b>	—	—	—	(1,192)	(1,192)
<b>Balance at 30 June 2015</b>	5	483	(19,150)	(6,254)	(24,916)

**Merger reserve**

The merger reserve arose from the acquisitions of Selection Services Limited (£16,422,000) and Cloud Data Limited (£2,713,000) on 17 December 2011 and represents the difference between the value of the assets acquired and the consideration paid. In the year ended 30 June 2013, an adjustment of £15,000 was made to increase the merger reserve in connection with the acquisition of Selection Services Limited.

**Consolidated statement of cash flows**  
**for the years ended 30 June**

	2013 £000	2014 £000	2015 £000
<b>Cash flows from operating activities</b>			
Loss before taxation	(2,540)	(2,406)	(1,020)
Adjustments for:			
Net finance costs	1,889	2,215	2,505
Other income	–	–	(151)
Depreciation	1,020	1,187	1,281
Loss on disposal of fixed assets	–	67	23
(Increase)/decrease in inventory	(20)	9	24
Decrease in trade and other receivables	640	161	22
Decrease in trade and other payables	(402)	(1)	(1,591)
<b>Net cash inflows from operating activities – continuing operations</b>	<b>587</b>	<b>1,232</b>	<b>1,093</b>
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment	(1,585)	(772)	(1,330)
Purchase of subsidiary undertakings net of cash acquired	(144)	–	–
<b>Net cash outflows from investing activities – continuing operations</b>	<b>(1,729)</b>	<b>(772)</b>	<b>(1,330)</b>
<b>Cash flows from financing activities</b>			
Issue of shares	5	–	–
Bank loan received	1,500	–	–
Bank loan repaid	–	(250)	(125)
Finance leases	606	196	579
Repayment of finance leases	(138)	(309)	(316)
Repayment of loan notes	(42)	(125)	(208)
Income tax	(1)	(52)	15
Finance income	1	–	–
Finance costs	(1,640)	(1,026)	(689)
<b>Net cash inflows/(outflows) from financing activities – continuing operations</b>	<b>291</b>	<b>(1,566)</b>	<b>(744)</b>
<b>Net decrease in cash and cash equivalents in the year</b>	<b>(851)</b>	<b>(1,106)</b>	<b>(981)</b>
Cash and cash equivalents at beginning of year	1,664	813	(293)
<b>Cash and cash equivalents at end of year</b>	<b>813</b>	<b>(293)</b>	<b>(1,274)</b>

## Notes to the historical financial information

### 1. Accounting policies

#### 1.1 Basis of preparation

Selection Services Investments Limited was incorporated on 17 November 2011 and is domiciled in England at Rutland House, 44 Masons Hill, Bromley, Kent BR2 9JG. The principal activity of the Selection Services Investments Limited is the provision of outsourced IT managed services.

The consolidated historical financial information of the Selection Group has been prepared on a going concern basis, and is in accordance with applicable International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the European Union ("IFRS"), the International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") that are effective or issued and early adopted as at the time of preparing this consolidated historical financial information.

The consolidated historical financial information for the twelve month periods ended 30 June 2013, 2014 and 2015 is solely for the purpose of inclusion of this consolidated historical financial information within this Admission Document for Castle Street Investments plc in accordance with the AIM Rules for Companies.

The detailed measurement bases and principal accounting policies of the Selection Group are set out below. The presentational and functional currency of the Selection Group is Sterling.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout the periods presented in this consolidated historical financial information.

##### (a) Going concern

The Selection Group are in a net liability position of £24,916,000 as at 30 June 2015 (2014: £23,724,000, 2013: £21,387,000). The Directors and Proposed Directors have reviewed the Selection Group's projected cash flows for a period of at least twelve months from the date of the balance sheet which demonstrate that the Selection Group can meet its liabilities as they fall value, after taking account on the funds raised as part of the Admission process. As such, this consolidated historical financial information has been prepared on a going concern basis. An overview of the Selection Group's financial risk management policies and exposures is provided in note 23 to the financial statements.

#### 1.2 Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Selection Group has control. The Selection Group controls an entity when the Selection Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Selection Group.

In the year ended 30 June 2012, the Selection Group used merger accounting to account for the combination of the acquisitions of Selection Services Limited and Cloud Data Limited as part of a group reconstruction exercise. Under merger accounting, the carrying values of the assets and liabilities of the parties to the combination are not adjusted to fair value on consolidation. Any difference between the cost of investment and the nominal value of the share capital acquired is put to a merger reserve.

The Selection Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Selection Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and



contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the statement of comprehensive income.

Inter-company transactions, balances, income and expenses or transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the group.

### 1.3 *Revenue*

Revenue represents sales to external customers at invoiced amounts less value added tax. There are two distinct revenue streams that the Selection Group categorise as revenue:

Contractual income is all revenue that is contractually agreed and bound by a signed contract by both the Selection Group and customer. Services that contribute to the contractual revenue include Cloud Infrastructure Services, Maintenance Services, Site Services, Deskside Support, External Helpdesk, SupportNet 24 (Remote Management) and ADSL/Communication Services.

Non Contractual income is typically classed as “one-off” revenue. This is typically all Hardware and Software sales, Project work and Consultancy work that is commissioned by customers. Revenue is recognised upon delivery.

#### *Deferred revenue*

Deferred revenue represents revenue that has been invoiced for services that have not been substantially completed. Deferred revenue recognised as a liability in the statement of financial position and is released to the statement of comprehensive income as and when the contractual obligations have been fulfilled.

### 1.4 *Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, over the fair value of the identifiable net assets acquired.

### 1.5 *Property, plant and equipment*

Property, plant and equipment are stated at cost less depreciation and any provision for impairment. Depreciation is provided to write down the cost to the residual value over the assets’ estimated useful economic lives with the following lives:

Fixtures and fittings	20% to 33% on straight line
Office equipment	20% to 33% on straight line
Computer hardware	20% to 33% on straight line
Computer software	20% to 33% on straight line
Loan stock	25% on straight line

The residual values and economic lives of assets are reviewed by the directors on at least an annual basis and are amended as appropriate.

### 1.6 *Impairment of assets*

Goodwill is not subject to amortisation and is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss is recognised for the amount by which the carrying value of goodwill exceeds the recoverable amount of the cash generating unit to which the goodwill relates.

Property, plant and equipment are subject to depreciation and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. The recoverable amount is the greater of fair value less costs to sell and value in use.

### 1.7 *Inventory*

Inventory is valued at the lower of cost and net realisable value on a first in first out (FIFO) after making allowance for any obsolete or slow moving stock. Cost is calculated as purchase price. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 1.8 *Leases*

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the statement of comprehensive income over the year of the lease and represents a constant proportion of the balance of capital payments outstanding. The capital part reduces the amount payable to the lessor.

#### *Provision for onerous leases*

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease.

#### *Holiday pay accrual*

Provision is made for holiday pay to the extent of the liability if all employees of the group had left the business at its reporting date.

### 1.9 *Taxation*

Current tax is the tax currently payable based upon the taxable profit for the period.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or of any other asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Tax losses which are available to be carried forward and other income tax credits to Selection Services Investments Limited are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying temporary differences will be able to be offset against future taxable income.

Current and deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period of realisation based on tax rates and laws that have been enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement except where they relate to items that are charged or credited directly to equity or where they relate to other comprehensive income in which case the related deferred tax is also charged or credited directly to equity or recognised in the statement of comprehensive income.

#### **1.10 Financial assets**

Financial assets are recognised when the Selection Group becomes a party to the contractual provisions of the contract. They are assigned to the categories described below by management on initial recognition, depending on the purpose for which they were acquired. The designations of financial assets are re-evaluated at every reporting date at which a choice of classification or accounting treatment is available, and are as follows:

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. These are initially recognised at fair value and subsequently are measured at amortised cost using the effective interest rate method, less provision for estimated irrecoverable amounts. Receivables are assessed for impairment based on a number of factors including their credit-worthiness, previous payment history and future prospects. Any change in their value through impairment or reversal of impairment is recognised in the income statement. The carrying value less impairment provision of loans and receivables is assumed to approximate to their fair value. The group's trade receivables and cash and cash equivalents fall into this category.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

#### **1.11 Financial liabilities**

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Selection Group becomes a party to the contractual provisions of the contract. The Selection Group's financial liabilities include trade payables which are measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

##### *Derecognition of financial assets and liabilities*

A financial asset or liability is generally derecognised only when the contract that gives rise to it is settled, sold, cancelled or expires.

##### *Interest-bearing loans and borrowings*

The Selection Group has entered into a number of loan agreements to fund operational, capital and investment expenditure. All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses on the repurchase, settlement or cancellation of liabilities are recognised in the statement of comprehensive income.

##### *Foreign currencies*

The functional and presentation currency of the Selection Group is Pounds Sterling and the Selection Group conducts the majority of its business in Sterling.

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are reported at the rates of exchange prevailing at that date. Exchange differences arising on the settlement and retranslation of monetary items are included in the operating result for the year.

### *Equity*

Equity comprises ordinary share capital, representing the nominal value of shares of Selection.

### *Pension costs*

Contributions to the group's defined contribution pension scheme are charged to the profit and loss account in the year which they become payable. The assets of the scheme are held separately in an independently administered fund.

### *Exceptional costs*

Items which are material either because of their size or their nature, and which are non-recurring, are highlighted separately on the face of the income statement. The separate reporting of exceptional items helps provide a better picture of the Selection Group's underlying performance. Items which may be included within the exceptional category include:

- Spend on the integration of significant acquisitions and other major restructuring programmes;
- Significant goodwill or other asset impairments; and
- Other particularly significant or unusual items.

Spend on integration are incurred by the Selection Group, when integrating one trading business into another. The types of costs include employment related costs of staff made redundant as a consequence of integration, due diligence costs, property costs such as lease termination penalties and vacant property provisions, third party adviser fees and rebranding costs.

Exceptional items are excluded from the headline profit measures used by the Selection Group and are highlighted separately in the income statement as management believe that they need to be considered separately to gain an understanding of the underlying profitability of the trading businesses.

### *Segmental reporting*

The Directors and Proposed Directors, as the chief operating decision-makers, review financial information for and makes decisions about the Selection Group's activities and has three operating segments, which is the provision of Managed Services, Projects and Procurement.

### *Recently issued accounting pronouncements*

At the date of issue of this historical financial information, the following Standards, amendments and Interpretations which have not been applied in this historical financial information were in issue but not yet effective. The Directors and Proposed Directors anticipate that the adoption of these Standards and Interpretations, which is expected to occur on their effective dates, will not have a material impact on the Selection Group's historical financial information.

New Standards:

- IFRS 9 – Financial instruments
- IFRS 14 – Regulatory deferral accounts

Amendments:

- IFRS 5 – Non-current assets held for sale and discontinued operations
- IFRS 7 – Financial instruments, disclosures
- IAS 1 – Presentation of financial statements

- IAS 16 – Property, plant and equipment
- IAS 19 – Employee benefits
- IAS 27 – Consolidated and separate financial statements
- IAS 34 – Interim financial reporting
- IAS 38 – Intangible assets

#### 1.12 *Critical accounting estimates and judgements*

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Selection Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

##### *Estimated impairment of goodwill*

The Selection Group tests annually whether goodwill has suffered any impairment, in accordance with Group policy. The recoverable amounts of the cash generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

The recoverable amount of the business was based on a value in use calculation using cash flow projections for a five-year period from forecast revenue streams. Forecast revenue and costs were based on realistic expectations arising from market activity, with gross margins increasing by 1% per annum, based on current levels. Revenue growth was projected to be 8% per annum, based on expected new customer wins. Cash flows were discounted at a weighted average cost of capital of 11.22%. The weighted average cost of capital has been calculated using beta factors that have been taken from an average of UK listed companies in the IT services sector and gearing, based on the average gearing of the same companies.

##### *Classification of Exceptional costs*

The Directors and Proposed Directors have exercised judgement when classifying certain costs as integration and reorganisation costs. They believe that these costs are all related to the group policy 'Exceptional costs'. The types of costs include employment related costs of staff made redundant as a consequence of integration, acquisition due diligence costs, property costs such as lease termination penalties and vacant property provisions, third party adviser fees and rebranding costs.

## 2. **Business combinations**

On 23 January 2013, the Selection Group completed the acquisition of the Aggregated Telecom group comprising Aggregated Telecom Limited, 8el Leasing Limited and 8el Limited.

Total cost for the acquisition was £780,000, including debt funding costs of £30,000. Consideration consisted of five elements:

- Retention consideration, adjusted after completion;
- Completion consideration, paid through the Issue 1 Fixed Rate Unsecured Loan Notes;
- Contingent consideration, defined as any tax benefit over £2,000,000 derived from the use of the accumulated tax losses at completion;
- Earn-out consideration, which is an amount equal to 300% of the amount by which the profits for the period 1 May 2013 to 30 April 2014 exceed £2,364,000; and

- Consideration loan notes, made up of three loan notes:
  - Issue 2 Fixed Rate Unsecured Loan Notes, with a value of £250,000; payment of this loan note is based on the acquisition achieving a gross profit of £2,364,000 for the twelve-month period ended 30 June 2014 and some utilisation of tax losses;
  - Issue 3 Fixed Rate Unsecured Loan Notes, with a value of £250,000; payment of this loan note is based on the acquisition achieving a gross profit of £2,364,000 for the twelve-month period ended 30 June 2015 and some utilisation of tax losses; and
  - Issue 4 Fixed Rate Unsecured Loan Notes, with a value of £250,000; payment of this loan note is based on the acquisition achieving a gross profit of £2,364,000 for the twelve-month period ended 30 June 2016 and some utilisation of tax losses.

The consideration of £750,000 was made up as follows:

- Retention consideration of £nil;
- Completion consideration – £500,000 Issue 1 Fixed Rate Unsecured Loan Notes, which is repayable in quarterly instalments (see note 19 'Borrowings');
- Contingent consideration of £nil as there was no tax benefit over £2,000,000 derived from the use of the accumulated tax losses;
- Earn-out consideration of £nil as the profits for the period 1 May 2013 to 30 June 2014 did not exceed £2,364,000; and
- Consideration loan notes, as follows:
  - Issue 2 Fixed Rate Unsecured Loan Notes were not issued as the directors were of the opinion at the date of acquisition that the acquisition is unlikely to achieve a gross profit of £2,364,000 for the twelve-month period ended 30 June 2014;
  - Issue 3 Fixed Rate Unsecured Loan Notes were not issued as the directors were of the opinion at the date of acquisition that the acquisition is unlikely to achieve a gross profit of £2,364,000 for the twelve-month period ended 30 June 2015; and
  - Issue 4 Fixed Rate Unsecured Loan Notes of £250,000 were issued as the directors are of the opinion at the date of acquisition that acquisition would achieve a gross profit of £2,364,000 for the twelve-month period ended 30 June 2016.

Further to the above, as part of the transaction to acquire the group headed by Aggregated Telecom Limited, interest payments that had accrued pre-acquisition in the Aggregated Telecom group were extinguished at subsidiary level and became part of the deferred, contingent consideration in Selection Services Financing Limited. Under the terms of the sale and purchase agreement, this obligation would have been due if certain conditions have been met. In the Directors' and Proposed Directors' opinion, these conditions will not be achieved and consequently, this obligation has not been provided for in the accounts of the Selection Group.

In calculation the goodwill arising on acquisition, the fair value of the net assets of Aggregated Telecom Group has been assessed and adjustments from book value have been made where necessary. These adjustments are summarised in the following table:

The fair value to the Selection Group of the assets acquired are summarised below:

	<i>Fair value to Group £000</i>
Fixed assets	142
Inventory	12
Trade and other receivables	590
Cash	202
Trade and other payables	(2,610)
Fair value of net liabilities	(1,664)
Goodwill (see note 11)	2,444
<b>Total purchase consideration</b>	<b>780</b>
Issue of Issue 1 Fixed Rate Unsecured Loan Notes	500
Deferred consideration (see note 20)	250
Debt funding costs	30
<b>Total purchase consideration</b>	<b>780</b>

Acquisition costs of £569,397 were incurred in respect of the acquisition, which have been expensed to administrative costs in the statement of comprehensive income.

On acquisition, Selection Services Investments Limited assessed the business acquired to identify any intangible assets. No intangible assets were identified which were separable from goodwill and with a measurable fair value. Goodwill represents the acquisition of a telecom networks business which will generate future revenue streams from existing Selection customers.

From acquisition date to 30 June 2013, Aggregated Telecom group generated revenues of £2,273,781 and a loss after tax of £281,934. For the fifteen-month period ended 30 June 2013, Aggregated Telecom generated revenues of £7,398,845 and a loss after tax of £672,127.

For the year ended 30 June 2013, the enlarged Selection Services Group, including Aggregated Telecom for the whole period as if Aggregated Telecom had been acquired from the start of the year, generated revenues of £37,024,000 and a loss after tax of £2,787,000.

### 3. Segmental analysis

Operating segments are reported in a manner consistent with the internal reporting to the Chief Operating Decision Maker. The following tables present information on revenue, profit and certain assets and liabilities in respect of the Selection Group's business segment for the year ended 30 June 2015.

	<i>Managed Services £000</i>	<i>Projects £000</i>	<i>Procurement £000</i>	<i>Central £000</i>	<i>Total £000</i>
<b>Continuing operations</b>					
Revenue	25,454	5,068	4,022	–	34,544
Cost of sales	(14,772)	(3,567)	(2,731)	–	(21,070)
<b>Gross profit</b>	<b>10,682</b>	<b>1,501</b>	<b>1,291</b>	<b>–</b>	<b>13,474</b>
Administrative costs	–	–	–	(12,140)	(12,140)
<b>Operating profit/(loss)</b>	<b>10,682</b>	<b>1,501</b>	<b>1,291</b>	<b>(12,140)</b>	<b>1,334</b>
Other income	–	–	–	151	151
Finance costs	–	–	–	(2,505)	(2,505)
<b>Profit/(loss) before taxation</b>	<b>10,682</b>	<b>1,501</b>	<b>1,291</b>	<b>(14,494)</b>	<b>(1,020)</b>
Taxation	–	–	–	(172)	(172)
<b>Profit/(loss) for the financial year</b>	<b>10,682</b>	<b>1,501</b>	<b>1,291</b>	<b>(14,666)</b>	<b>(1,192)</b>

The statement of financial position is not allocated between Managed Services, Project and Procurement in the group's internal reporting. As a result, we report the assets and liabilities of these three segments under the combined heading "IT Services".

	<i>IT Services £000</i>	<i>Central £000</i>	<i>Total £000</i>
<b>Assets and liabilities</b>			
Segment assets	10,801	479	11,280
Segment liabilities	(15,153)	(21,043)	(36,196)
<b>Other segment information</b>			
Property, plant and equipment	1,847	–	1,847
Intangible assets – Goodwill	2,345	–	2,345

The following tables present information on revenue, profit and certain assets and liabilities in respect of the group's business segment for the year ended 30 June 2014.



	<i>Managed Services £000</i>	<i>Projects £000</i>	<i>Procurement £000</i>	<i>Central £000</i>	<i>Total £000</i>
<b>Continuing operations</b>					
Revenue	26,160	5,491	4,684	–	36,335
Cost of sales	(15,887)	(3,757)	(3,677)	–	(23,321)
<b>Gross profit</b>	<b>10,273</b>	<b>1,734</b>	<b>1,007</b>	<b>–</b>	<b>13,014</b>
Administrative costs	–	–	–	(13,205)	(13,205)
<b>Operating profit/(loss)</b>	<b>10,273</b>	<b>1,734</b>	<b>1,007</b>	<b>(13,205)</b>	<b>(191)</b>
Finance costs	–	–	–	(2,215)	(2,215)
<b>Profit/(loss) before taxation</b>	<b>10,273</b>	<b>1,734</b>	<b>1,007</b>	<b>(15,420)</b>	<b>(2,406)</b>
Taxation	–	–	–	69	69
<b>Profit/(loss) for the financial year</b>	<b>10,273</b>	<b>1,734</b>	<b>1,007</b>	<b>(15,351)</b>	<b>(2,337)</b>

The statement of financial position is not allocated between Managed Services, Project and Procurement in the group's internal reporting. As a result, we report the assets and liabilities of these three segments under the combined heading "IT Services".

	<i>IT Services £000</i>	<i>Central £000</i>	<i>Total £000</i>
<b>Assets and liabilities</b>			
Segment assets	11,009	479	11,488
Segment liabilities	(14,015)	(21,197)	(35,212)
<b>Other segment information</b>			
Property, plant and equipment	1,821	–	1,821
Intangible assets – Goodwill	2,345	–	2,345

The following tables present information on revenue, profit and certain assets and liabilities in respect of the group's business segment for the year ended 30 June 2013.

	<i>Managed Services £000</i>	<i>Projects £000</i>	<i>Procurement £000</i>	<i>Central £000</i>	<i>Total £000</i>
<b>Continuing operations</b>					
Revenue	24,839	4,626	4,013	–	33,478
Cost of sales	(15,680)	(2,942)	(3,095)	–	(21,717)
<b>Gross profit</b>	<b>9,159</b>	<b>1,684</b>	<b>918</b>	<b>–</b>	<b>11,761</b>
Administrative costs	–	–	–	(12,412)	(12,412)
<b>Operating profit/(loss)</b>	<b>9,159</b>	<b>1,684</b>	<b>918</b>	<b>(12,412)</b>	<b>(651)</b>
Net finance costs	–	–	–	(1,889)	(1,889)
<b>Profit/(loss) before taxation</b>	<b>9,159</b>	<b>1,684</b>	<b>918</b>	<b>(14,301)</b>	<b>(2,540)</b>
Taxation	–	–	–	8	8
<b>Profit/(loss) for the financial year</b>	<b>9,159</b>	<b>1,684</b>	<b>918</b>	<b>(14,293)</b>	<b>(2,532)</b>

The statement of financial position is not allocated between Managed Services, Project and Procurement in the group's internal reporting. As a result, we report the assets and liabilities of these three segments under the combined heading "IT Services".

	<i>IT Services</i>	<i>Central</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Assets and liabilities</b>			
Segment assets	12,451	479	12,930
Segment liabilities	(12,804)	(21,513)	(34,317)
<b>Other segment information</b>			
Property, plant and equipment	2,303	–	2,303
Intangible assets – Goodwill	2,444	–	2,444

Turnover is wholly attributable to the principal activity of the Selection Group, which is the provision of outsourced IT services and primarily arises within the United Kingdom. There is a small amount of turnover within Europe which is not considered material and as such, this is not considered to be a segment. Therefore, no separate reporting has been prepared.

Revenues derived from major customers, which individually represent 10 per cent, or more of total revenue are as follows:

	<i>2013</i>	<i>2014</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Customer A	13,813	11,491	10,013
Other customers	19,665	24,844	24,531
	<u>33,478</u>	<u>36,335</u>	<u>34,544</u>

#### 4. Expenses by nature

	<i>2013</i>	<i>2014</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Direct staff costs	9,227	8,239	6,667
Other cost of sales	12,490	15,082	14,403
Employee costs within administrative expenses	5,558	8,194	8,310
Depreciation	1,020	1,187	1,281
Exceptional costs (see note 6)	1,623	1,909	710
Operating leases – plant and machinery	308	345	347
Operating leases – land and buildings	349	386	513
Other administrative costs	3,554	1,184	979
Total cost of sales and administrative costs	<u>34,129</u>	<u>36,526</u>	<u>33,210</u>

## 5. Auditor's remuneration

Below are the fees payable to the auditor and their associates:

	2013 £000	2014 £000	2015 £000
<b>Audit services</b>			
Audit of consolidated financial statements	8	8	8
Audit of subsidiary undertakings financial statements	41	42	42
<b>Other services</b>			
Taxation services	9	15	33
Other services	20	–	–
	<u>78</u>	<u>65</u>	<u>83</u>

## 6. Exceptional costs

In accordance with the Selection Group's policy in respect of exceptional costs, the following charges were incurred during the year:

	2013 £000	2014 £000	2015 £000
Integration costs	144	860	–
Redundancy and restructuring costs	910	1,025	509
Property related costs	–	24	201
Acquisition costs	569	–	–
	<u>1,623</u>	<u>1,909</u>	<u>710</u>

Integration costs were incurred as a result of merging the various departments and management structures across acquired businesses into the existing head office based operations.

Redundancy and restructuring costs were necessarily incurred in order to continue the on-going professionalism of the business, people, process and technology.

Property related costs were incurred as a result of closing a number of offices following the merging of the various departments and management structures across acquired businesses into the existing head office based operations.

Acquisition costs relate to costs incurred on the acquisition of Aggregated Telecom group on 23 January 2013.

## 7. Particulars of staff

The average number of persons employed by the Selection Group, including executive directors, during each year was:

	2013 No	2014 No	2015 No
Sales	42	40	36
Technology	44	49	43
Service delivery	65	63	59
Project delivery	216	199	189
Administration	33	31	35
	<u>400</u>	<u>382</u>	<u>362</u>

The aggregate payroll costs of these persons were:

	2013	2014	2015
	£000	£000	£000
Wages and salaries	13,135	14,547	13,077
Social security costs	1,360	1,536	1,411
Pension costs	290	350	489
	<u>14,785</u>	<u>16,433</u>	<u>14,977</u>

#### **Key Management Personnel Remuneration**

Key management consists of the Chairman, the Managing Director, the Chief Financial Officer, the Group Sales & Marketing Director and the Chief Technology Officer. Remuneration of key management during each year was as follows:

	2013	2014	2015
	£000	£000	£000
Aggregate emoluments including short-term employee benefits	412	955	817
Social security costs	51	122	114
Loss of office	45	79	30
Pension costs	20	51	41
	<u>528</u>	<u>1,207</u>	<u>1,002</u>

#### **8. Other operating income**

	2013	2014	2015
	£000	£000	£000
Release of deferred consideration	<u>–</u>	<u>–</u>	<u>151</u>

On the acquisition of Aggregated Telecom Limited, Issue 4 Fixed Rate Unsecured Loan Notes of £250,000 were issued by way of deferred consideration which are repayable in April 2016 and are contingent on the acquisition achieving a gross profit of £2,364,000 for the twelve-month period ended 30 June 2016. (see note 2 'Business combinations'). The loan notes accrue interest at 8% per annum.

At 30 June 2015, in the opinion of the Directors and the Proposed Directors, the loan notes will not be payable, so the deferred consideration balance has been released to the income statement.

#### **9. Finance income and costs**

##### **Finance income**

	2013	2014	2015
	£000	£000	£000
Other finance income	<u>1</u>	<u>–</u>	<u>–</u>

## Finance costs

	2013	2014	2015
	£000	£000	£000
Interest payable on bank loans and overdrafts	798	879	890
Interest expense in respect of:			
Loan notes	964	1,171	1,386
Finance leases	14	27	66
Other interest	–	7	2
Finance charges	55	72	102
Unwinding of loan issue costs	59	59	59
	<u>1,890</u>	<u>2,215</u>	<u>2,505</u>

## 10. Taxation

### (a) Tax on loss on ordinary activities

	2013	2014	2015
	£000	£000	£000
<b>Current income tax</b>			
Current year charge	–	–	–
Adjustment in respect of prior periods	(63)	–	–
Total current income tax credit	<u>(63)</u>	<u>–</u>	<u>–</u>
<b>Deferred tax</b>			
Origination and reversal of timing differences	55	(69)	172
Income tax (credit)/charge reported in the income statement	<u>(8)</u>	<u>(69)</u>	<u>172</u>

### (b) Reconciliation of the total income tax charge/(credit)

	2013	2014	2015
	£000	£000	£000
Loss before taxation	(2,540)	(2,406)	(1,020)
Accounting loss multiplied by the UK standard rate of 20.75% (2014: 22.5%, 2013: 23.75%)	(603)	(541)	(212)
Effects of:			
Expenses not deductible for tax purposes	121	165	405
Capital allowances in excess of depreciation	34	(37)	(14)
Losses utilised in the year	–	–	(110)
Losses carried forward	446	413	–
Short term timing differences	2	–	–
Non-trade loan relationship credit	–	–	(69)
Adjustments in respect of prior periods	(63)	–	–
Deferred tax – origination and reversal of timing differences	55	(69)	172
Income tax (credit)/charge reported in the income statement	<u>(8)</u>	<u>(69)</u>	<u>172</u>

(c) *Deferred tax assets*

	2013	2014	2015
	£000	£000	£000
Opening balance at 1 July	369	314	383
Recognised in income statement	(55)	69	(172)
Closing balance at 30 June	<u>314</u>	<u>383</u>	<u>211</u>

Deferred tax assets are recognised when it is the view of the Directors and Proposed Directors that it is probable that there will be future sustainable taxable profits against which prior year tax losses can be offset. The deferred tax asset relates to temporary differences in relation to property, plant and equipment.

The Selection Group has an unrecognised deferred tax asset in respect of losses and reliefs in the Aggregated Telecom group, acquired on 23 January 2013. Deferred tax assets have not been recognised in respect of these losses and reliefs due to the uncertainty of timing of utilisation.

**11. Intangible assets**

	<i>Goodwill</i> £000
<b>Cost</b>	
At 1 July 2012	–
Acquisition (see note 2)	2,444
<b>At 30 June 2013</b>	<u>2,444</u>
Write-off of deferred consideration (see note 20)	(99)
<b>At 30 June 2014 and 30 June 2015</b>	<u>2,345</u>
<b>Accumulated impairment</b>	
At 1 July 2012, 30 June 2013, 30 June 2014 and 30 June 2015	–
<b>Net carrying amount</b>	
At 30 June 2015 and at 30 June 2014	<u>2,345</u>
At 30 June 2013	<u>2,444</u>

**Goodwill**

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of the business was based on a value in use calculation using cash flow projections for a five-year period from forecast revenue streams. Forecast revenue and costs were based on realistic expectations arising from market activity, with gross margins increasing by 1% per annum, based on current levels. Revenue growth was projected to be 8% per annum, based on expected new customer wins. Cash flows were discounted at a weighted average cost of capital of 11.22%. The weighted average cost of capital has been calculated using beta factors that have been taken from an average of UK listed companies in the IT services sector and gearing, based on the average gearing of the same companies.

The Directors and Proposed Directors considered that no goodwill impairment charge was necessary in the years ended 30 June 2013, 2014 and 2015.

## 12. Property, plant and equipment

	<i>Fixtures and fittings £000</i>	<i>Office equipment £000</i>	<i>Computer hardware and software £000</i>	<i>Loan stock £000</i>	<i>Total £000</i>
<b>Cost</b>					
At 1 July 2012	17	10	1,398	338	1,763
Acquisitions	3	5	134	–	142
Additions	147	96	1,307	35	1,585
<b>At 30 June 2013</b>	<b>167</b>	<b>111</b>	<b>2,839</b>	<b>373</b>	<b>3,490</b>
Additions	29	1	733	9	772
Disposals	(26)	(2)	(53)	–	(81)
<b>At 30 June 2014</b>	<b>170</b>	<b>110</b>	<b>3,519</b>	<b>382</b>	<b>4,181</b>
Additions	255	–	1,061	14	1,330
Disposals	(133)	–	–	–	(133)
<b>At 30 June 2015</b>	<b>292</b>	<b>110</b>	<b>4,580</b>	<b>396</b>	<b>5,378</b>
<b>Depreciation</b>					
At 1 July 2012	5	2	95	65	167
Charge for the year	29	22	851	118	1,020
<b>At 30 June 2013</b>	<b>34</b>	<b>24</b>	<b>946</b>	<b>183</b>	<b>1,187</b>
Charge for the year	51	37	1,008	91	1,187
Disposals	(8)	–	(6)	–	(14)
<b>At 30 June 2014</b>	<b>77</b>	<b>61</b>	<b>1,948</b>	<b>274</b>	<b>2,360</b>
Charge for the year	50	34	1,125	72	1,281
Disposals	(110)	–	–	–	(110)
<b>At 30 June 2015</b>	<b>17</b>	<b>95</b>	<b>3,073</b>	<b>346</b>	<b>3,531</b>
<b>Net book value</b>					
<b>At 30 June 2015</b>	<b>275</b>	<b>15</b>	<b>1,507</b>	<b>50</b>	<b>1,847</b>
At 30 June 2014	93	49	1,571	108	1,821
At 30 June 2013	133	87	1,893	190	2,303

The net book value of tangible fixed assets for the Selection Group includes an amount of £783,159 (2014: £727,310, 2013: £501,181) in respect of assets held under hire purchase contracts and finance leases. The related depreciation charge for the year was £392,884 (2014: £199,762, 2013: £89,811).

Depreciation of property plant and equipment is included within administrative costs in the statement of comprehensive income.

## 13. Other non-current assets

	<i>2013 £000</i>	<i>2014 £000</i>	<i>2015 £000</i>
Indemnity	479	479	479
Rent deposit	–	–	153
	<b>479</b>	<b>479</b>	<b>632</b>

Other non-current assets include an indemnity provided by an ex-director for their share of a provision in respect of a tax planning arrangement entered into by a subsidiary undertaking in a previous accounting period, which has been disputed by Her Majesty's Revenue and Customs ("HMRC"), see note 22 'Provisions'.

The rent deposit is in relation to the Head Office in Croydon, which has been leased from April 2015 to April 2026 and is subject to a break clause in April 2021.

#### 14. Inventory

	2013 £000	2014 £000	2015 £000
Inventory	33	24	–
	<u>33</u>	<u>24</u>	<u>–</u>

Movement in inventory is included within cost of sales in the statement of comprehensive income. Purchases of IT equipment for resale included within cost of sales for the year ended 30 June 2015 amounted to £24,000 (2014: £9,000, 2013: £nil).

#### 15. Trade and other receivables

	2013 £000	2014 £000	2015 £000
Trade receivables	4,513	5,180	5,573
Less: Provision for impairment of trade receivables	(144)	(105)	(69)
Net trade receivables	<u>4,369</u>	<u>5,075</u>	<u>5,504</u>
Other receivables	216	112	115
Prepayments and accrued income	1,925	1,163	555
Corporation tax	34	86	71
	<u>6,544</u>	<u>6,436</u>	<u>6,245</u>

The ageing of trade receivables that were past due but not impaired at each year end was:

	2013 £000	2014 £000	2015 £000
Not past due	3,569	3,985	4,262
Up to 3 months past due	800	938	1,121
More than 3 months past due	–	152	121
	<u>4,369</u>	<u>5,075</u>	<u>5,504</u>

The Selection Group trades with recognised, credit-worthy third parties. Receivable balances are monitored on an ongoing basis with the aim of minimising the Selection Group's exposure to bad debts. The Selection Group has reviewed in detail all items comprising the above not past due and overdue but not impaired trade receivables to ensure that no impairment exists. As at 30 June 2015, trade receivables of £69,000 (2014: £105,000, 2013: £144,000) were impaired and provided for, all of which were more than 3 months old (2014 and 2013: more than 3 months old). Movements on the provision for impairment of trade receivables are as follows:

	2013 £000	2014 £000	2015 £000
At 1 July	–	144	105
Provision for receivables impairment	144	105	69
Utilisation of receivables impairment	–	(144)	(105)
At 30 June	<u>144</u>	<u>105</u>	<u>69</u>

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable disclosed above.

The Selection Group's trade and other receivables are all denominated in Sterling.



**16. Cash and cash equivalents**

	2013 £000	2014 £000	2015 £000
Cash at bank and in hand (excluding overdrafts)	813	–	–
	<u>813</u>	<u>–</u>	<u>–</u>

The table below shows the balance with the major counterparty in respect of cash and cash equivalents.

	2013 £000	2014 £000	2015 £000
Credit rating A	813	–	–
	<u>813</u>	<u>–</u>	<u>–</u>

**17. Trade and other payables**

	2013 £000	2014 £000	2015 £000
<b>Current</b>			
Trade payables	4,017	3,737	3,752
Taxation and social security	1,124	1,478	1,011
Other creditors	33	81	38
Interest accruals	532	1,663	3,300
Other accruals	1,970	1,547	1,544
	<u>7,676</u>	<u>8,506</u>	<u>9,645</u>

The Directors and Proposed Directors consider that the carrying value of trade and other payables approximates their fair value.

**18. Deferred income**

	2013 £000	2014 £000	2015 £000
Deferred income	3,742	4,229	3,359
	<u>3,742</u>	<u>4,229</u>	<u>3,359</u>

Deferred income represents revenue that has been invoiced for services that have not been substantially completed.

**19. Borrowings**

	2013 £000	2014 £000	2015 £000
<b>Current</b>			
Bank loan	500	625	667
Loan notes	167	167	125
Directors' loan	15	15	15
	<u>682</u>	<u>807</u>	<u>807</u>
<b>Non-current</b>			
Bank and other loans	7,694	7,378	7,391
Loan notes	12,465	12,340	12,173
	<u>20,159</u>	<u>19,718</u>	<u>19,564</u>

### **Bank and other loans**

At each year end, the Selection Group had amounts payable in relation to the bank loans as follows:

	2013	2014	2015
	£000	£000	£000
Working Capital facility due within 1 year	500	625	500
Office fit-out loan due within 1 year	–	–	167
Working Capital facility due in 1 to 2 years	1,000	625	125
Office fit-out loan due in 1 to 2 years	–	–	167
Mezzanine facility due in 2 to 5 years	6,694	6,753	6,932
Office fit-out loan due in 2 to 5 years	–	–	167
	<u>8,194</u>	<u>8,003</u>	<u>8,058</u>

### **Working Capital facility**

The working capital facility due within 1 year and due in 1 to 2 years was obtained to support the working capital of the acquired subsidiary business Aggregated Telecom group. The loan bears annual interest of 4.97% (2014: 4.97%, 2013: 4.96%) and the facility is repayable in stages, by the amounts shown below, resulting in a facility of £nil on 31 July 2016:

- On 31 July 2014 £250,000
- On 31 October 2014 £125,000
- On 31 January 2015 £125,000
- On 30 April 2015 £125,000
- On 31 July 2015 £125,000
- On 31 October 2015 £125,000
- On 31 January 2016 £125,000
- On 30 April 2016 £125,000
- On 31 July 2016 £125,000

### **Office fit-out loan**

A bank loan of £500,000 was obtained during the year ended 30 June 2015 in order to fit-out a leased office in Croydon. The loan bears annual interest at 4.75% and the facility is repayable on a quarterly basis from 14 July 2015 by the amounts shown below, resulting in a facility of £nil on 14 April 2018:

- Year ended 30 June 2016 £166,667
- Year ended 30 June 2017 £166,667
- Year ended 30 June 2018 £166,667

Under a Financial Covenant attached to this loan, the ratio of cash flow to debt service for each relevant period shall not fall below the covenant. The relevant period is each period of the three months ending on 30 September 2015, the six months ending on 31 December 2015, the nine months ending on 31 March 2016, the twelve months ending on 30 June 2016 and each twelve-month period ending on 30 June, the last day of the financial year.

### **Mezzanine Facility**

As at 30 June 2015, the Group's indebtedness to Beechbrook Capital LLP under the Mezzanine Facility Agreement dated 17 December 2011 was £7,020,419 – an initial loan of £6,900,000 (2014: £6,900,000, 2013: £6,900,000) with an additional £120,419 of PIK interest capitalised in the year (2014: £nil, 2013: £nil). The loan is repayable in December 2016. The loan bears interest at LIBOR plus a margin of 4.5% (2014: LIBOR plus margin of 10.5%, 2013: LIBOR plus margin of 10.5%) with payments of interest due at intervals not to exceed six months in duration. The PIK bears interest at LIBOR plus a margin of 7% (2014: not applicable, 2013: not applicable), with payments of interest due at intervals not to exceed six months in duration. The bank loan is secured by way of a fixed and floating charge over the assets of the Group.

At 30 June 2015, the loan is stated net of unamortised issue costs of £87,792 (2014: £147,084, 2013: £206,376). The Group incurred total issue costs of £296,461. These costs, together with the interest rate expense are allocated to the income statement over the term of the facilities at a constant rate on the carrying value. An amount of £59,292 is included within finance costs in the current year income statement (2014: £59,292, 2013: £59,292) in respect of the amortisation of these issue costs.

Following 30 June 2015, certain of these loans were settled. Further detail is given in note 30.

### *Loan notes*

At each year end, the Selection Group had amounts payable in relation to the loan notes as follows:

	2013 £000	2014 £000	2015 £000
Loan notes due within 1 year	167	167	125
Loan notes due in 1 to 2 years	167	167	–
Loan notes due in 2 to 5 years	12,298	12,173	12,173
	<u>12,632</u>	<u>12,507</u>	<u>12,298</u>

### *Loan notes due within 1 year*

Issue 1 Fixed Rate Unsecured Loan Notes £125,150 (2014: £166,600, 2013: £166,600)

The loan notes accrue interest at 8% per annum and are repayable in quarterly instalments, with total annual payments as follows:

- Year ended 30 June 2014 £166,600
- Year ended 30 June 2015 £166,600
- Year ended 30 June 2016 £125,150

### *Loan notes due in 1 to 2 years*

Issue 1 Fixed Rate Unsecured Loan Notes £nil (2014: £166,600, 2013: £166,600)

The loan notes accrue interest at 8% per annum and are repayable in quarterly instalments, with total annual payments as follows:

- Year ended 30 June 2014 £166,600
- Year ended 30 June 2015 £166,600
- Year ended 30 June 2016 £ nil

### *Loan notes due in 2 to 5 years*

As at 30 June 2015, the loan notes of £12,173,074 (2014: £12,173,074, 2013: £12,298,224) were made up as follows:

Series A Secured Loan Note £7,427,500 (2014: £7,427,500, 2013 £7,427,500)

The loan notes are repayable in December 2017 and accrue interest at 8% per annum.

Series B Secured Loan Note £635,000 (2014: £635,000, 2013 £635,000)

The loan notes are repayable in December 2017 and accrue interest at 8% per annum

Series C Secured Loan Note £2,850,574 (2014: £2,850,574, 2013 £2,850,574)

The loan notes are repayable in December 2017 and accrue interest at 8% per annum.

Series D Secured Loan Note £1,260,000 (2014: £1,260,000, 2013 £1,260,000)

The loan notes are repayable in December 2017 and accrue interest at 8% per annum.

Issue 1 Fixed Rate Unsecured Loan Notes £nil (2014: £nil, 2013: £125,150)

The loan notes accrue interest at 8% per annum and are repayable in quarterly instalments, with total annual payments as follows:

- Year ended 30 June 2014 £125,150
- Year ended 30 June 2015 £nil
- Year ended 30 June 2016 £nil

No interest has been paid on the loan notes since 31 July 2013. Default interest of 2% per month is accrued for all overdue unpaid loan note interest.

#### **Directors' loan**

Directors' loans are unsecured, interest free and are due within one year.

#### **20. Deferred consideration**

	2013 £000	2014 £000	2015 £000
<b>Non-current</b>			
Loan notes	250	151	–
	<u>250</u>	<u>151</u>	<u>–</u>

#### **Loan notes**

Issue 4 Fixed Rate Unsecured Loan Notes £nil (2014: £151,119, 2013: £250,000).

On the acquisition of Aggregated Telecom Limited (see note 2 'Business combinations'), loan notes were issued by way of deferred consideration which are repayable in April 2016 and are contingent on certain financial performance criteria been achieved. The loan notes accrue interest at 8% per annum. At 30 June 2015, in the opinion of the Directors and Proposed Directors, the loan notes will not be payable, so the deferred consideration balance has been released to the income statement. At 30 June 2014, the deferred consideration was reduced by £99,000 and released against goodwill. The release against goodwill was due to the settlement of a warranty claim in respect of a supplier volume agreement; the claim was in existence at the acquisition date. At 30 June 2014 and at 30 June 2013, in the opinion of the Directors and Proposed Directors, the loan notes were payable.

#### **21. Finance leases**

The present value of finance leases is as follows:

	Minimum lease payments 2015 £000	Interest 2015 £000	Principal 2015 £000
Less than one year	416	(67)	349
Between one year and five years	367	(43)	324
	<u>783</u>	<u>(110)</u>	<u>673</u>
	Minimum lease payments 2014 £000	Interest 2014 £000	Principal 2014 £000
Less than one year	267	(33)	234
Between one year and five years	204	(27)	177
	<u>471</u>	<u>(60)</u>	<u>411</u>

	<i>Minimum lease payments 2013</i>	<i>Interest 2013</i>	<i>Principal 2013</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Less than one year	252	(23)	229
Between one year and five years	322	(27)	295
	<u>574</u>	<u>(50)</u>	<u>524</u>

## 22. Provisions

	<i>Restructuring provision</i>	<i>Property provision</i>	<i>Other provision</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Current</b>				
At 1 July 2012	–	–	672	672
Charge to income statement	359	253	–	612
At 30 June 2013	359	253	672	1,284
Charge to income statement	249	176	–	425
Utilised in the year	(359)	(229)	–	(588)
Released in the year	–	(24)	–	(24)
At 30 June 2014	249	176	672	1,097
Charge to income statement	34	13	–	47
Utilised in the year	(249)	–	–	(249)
Released to income statement	–	(21)	–	(21)
At 30 June 2015	<u>34</u>	<u>168</u>	<u>672</u>	<u>874</u>

### ***Restructuring provision***

Redundancy and restructuring costs were incurred in order to continue the on-going professionalism of the business, people, process and technology.

### ***Property provision***

The property provision relates to the refurbishment of two properties which are due to be vacated in June 2015 and have been estimated, based on a surveyor reports.

### ***Other provision***

Other provision relates to the arrangements that one of the Group companies entered into on behalf of the ex-directors in a previous accounting period. The provision has been estimated on the basis of determinations issued by Her Majesty's Revenue and Customs ("HMRC") which have not been agreed by the ex-directors. One ex-director has provided an indemnity for their share of this provision, of which £479,000 (2014: £479,000, 2013: £479,000) is shown within 'Other non-current assets' in note 13.

## 23. Financial instruments and financial risk management

The Selection Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk, liquidity risk and capital risk. The Selection Group uses financial instruments, comprising cash, trade receivables and trade payables, to manage financial and commercial risk wherever it is appropriate to do so.

### **Market risk**

#### **Foreign exchange risk**

All of the Selection Group's revenues and the vast majority of its costs are in Sterling and involve an immaterial level of currency risk. All cash and cash equivalents, receivables and payables are in Sterling. As the functional currency for operations is Sterling, foreign exchange risk is not material and therefore a sensitivity analysis has not been performed.

#### **Interest rate risk**

The Selection Group receives interest on cash and cash equivalents and pays interest on its borrowings.

All loan notes have a fixed interest rate of 8% per annum. Default interest of 2% per month is accrued for all overdue unpaid loan note interest. No interest has been paid since 31 July 2013. Interest on the Mezzanine Facility is payable at LIBOR plus a margin of 4.5% per annum (2014: LIBOR plus a margin of 10.5%, 2013: LIBOR plus a margin of 10.5%). The Selection Group's overdraft facility bears interest at LIBOR plus 4.45% per annum. The Working Capital facility bears interest at 4.97% per annum. The office fit-out loan bears interest at 4.75% per annum.

Excluding bank overdraft, the impact of post-tax profit and equity of a +/- 1% shift in LIBOR would be £78,000.

#### **Credit risk**

The Selection Group has no significant concentrations of credit risk. The Selection Group's standard policies require appropriate credit checks on potential trade customers before sales commence. Individual customers pay via an online payment provider before the goods are despatched, so incur little risk. Surplus funds in the Selection Group are held in a bank current account.

The IFRS 7 analysis of financial assets by category included in the statement of financial position is as follows:

	2013	2014	2015
	<i>Loans and receivables</i>	<i>Loans and receivables</i>	<i>Loans and receivables</i>
	£000	£000	£000
Trade receivables	4,369	5,075	5,504
Other receivables	216	112	115
Cash and cash equivalents	813	–	–
	<u>5,398</u>	<u>5,187</u>	<u>5,619</u>

The carrying amounts for receivables above reflect the Selection Group's maximum exposure to credit risk.

#### **Liquidity risk**

Prudent liquidity risk management requires the Selection Group to maintain sufficient cash and available facilities to be able to settle its short-term payables as they fall due. The Selection Group monitors rolling forecasts of its cash and cash equivalent short-term investments on the basis of expected cash flow.

The IFRS 7 analysis of financial liabilities by category included in the statement of financial position is as follows:

	2013	2014	2015
	<i>Financial liabilities at amortised cost</i>	<i>Financial liabilities at amortised cost</i>	<i>Financial liabilities at amortised cost</i>
	£000	£000	£000
Trade payables	4,017	3,737	3,752
Other creditors	33	81	38
Deferred consideration	250	151	–
Finance leases	524	411	673
Bank overdraft	–	293	1,274
Borrowings	20,841	20,525	20,371
	<u>25,665</u>	<u>25,198</u>	<u>26,108</u>

The remaining contractual term for all of the liabilities above at each year end is less than 6 months, except for Borrowings, Deferred consideration and Finance leases, which are disclosed in notes 19, 20 and 21 respectively.

#### 24. Share capital

	<i>Number of shares</i>	<i>Share capital £</i>
<b>Ordinary “A” shares of £0.01 each</b>		
At 1 July 2012, 30 June 2013, 30 June 2014 and 30 June 2015	<u>65,000</u>	<u>650</u>
<b>Ordinary “B” shares of £0.01 each</b>		
At 1 July 2012, 30 June 2013, 30 June 2014 and 30 June 2015	<u>37,500</u>	<u>375</u>
<b>Ordinary “C” shares of £0.01 each</b>		
At 1 July 2012	45,000	450
Share issue	<u>5,000</u>	<u>50</u>
At 30 June 2013, 30 June 2014 and 30 June 2015	<u>50,000</u>	<u>500</u>
<b>Ordinary “D” shares of £0.01 each</b>		
At 1 July 2012, 30 June 2013, 30 June 2014 and 30 June 2015	<u>12,500</u>	<u>125</u>
<b>Ordinary preferred shares of £0.01 each</b>		
At 1 July 2012, 30 June 2013, 30 June 2014 and 30 June 2015	<u>322,500</u>	<u>3,225</u>

The authorised share capital of Selection Services Investments Limited at 30 June 2015 is £5,000, divided into 65,000 Ordinary “A” shares of £0.01 per share, 37,500 Ordinary “B” shares of £0.01 per share, 62,500 Ordinary “C” shares of £0.01 per share, 12,500 Ordinary “D” shares of £0.01 per share and 322,500 Ordinary Preferred shares of £0.01 per share.

Ordinary shares are subdivided into Ordinary “A” shares, Ordinary “B” shares, Ordinary “C” shares, Ordinary “D shares” and Ordinary Preferred shares. All Ordinary shares, regardless of subdivision rank *pari passu* in respect of voting, dividend and capital distribution rights.

All of the shares detailed above have a nominal value of £0.01 per share and a premium of £0.99 per share.

On 5 February 2013, 5,000 Ordinary “C” shares of £0.01 were issued and cash consideration of £5,000 was received.

## 25. Commitments and contingencies

### *Operating leases*

At 30 June 2015, the Selection Group had aggregate minimum lease payments under non-cancellable operating leases as follows:

	<i>Property</i> <i>2015</i> <i>£000</i>	<i>Other</i> <i>2015</i> <i>£000</i>	<i>Total</i> <i>2015</i> <i>£000</i>
Due within 1 year	189	232	421
Within 2 to 5 years	1,421	379	1,800
Greater than 5 years	1,648	–	1,648
	<u>3,258</u>	<u>611</u>	<u>3,869</u>

At 30 June 2014, the Selection Group had aggregate minimum lease payments under non-cancellable operating leases as follows:

	<i>Property</i> <i>2014</i> <i>£000</i>	<i>Other</i> <i>2014</i> <i>£000</i>	<i>Total</i> <i>2014</i> <i>£000</i>
Due within 1 year	455	237	692
Within 2 to 5 years	432	156	588
Greater than 5 years	262	–	262
	<u>1,149</u>	<u>393</u>	<u>1,542</u>

At 30 June 2013, the Selection Group had aggregate minimum lease payments under non-cancellable operating leases as follows:

	<i>Property</i> <i>2013</i> <i>£000</i>	<i>Other</i> <i>2013</i> <i>£000</i>	<i>Total</i> <i>2013</i> <i>£000</i>
Due within 1 year	480	271	751
Within 2 to 5 years	709	235	944
Greater than 5 years	367	–	367
	<u>1,556</u>	<u>506</u>	<u>2,062</u>

The Selection Group's operating leases relate to property, office equipment and motor vehicles and have remaining terms of between one and ten years.

### *Capital commitments*

The Selection Group have contracted for capital commitments not provided of £73,000 at 30 June 2015 (2014: £nil, 2013: £nil).

### *Acquisition of Aggregated Telecom group*

On 23 January 2013, the Selection Group completed the acquisition of the Aggregated Telecom group comprising Aggregated Telecom Limited, 8el Leasing Limited and 8el Limited.

The purchase consideration consisted of five elements:

- Retention consideration, adjusted after completion;
- Completion consideration, paid through the Issue 1 Fixed Rate Unsecured Loan Notes;
- Contingent consideration, defined as any tax benefit over £2,000,000 derived from the use of the accumulated tax losses at completion;



- Earn-out consideration, which is an amount equal to 300% of the amount by which the profits for the period 1 May 2013 to 30 April 2014 exceed £2,364,000; and
- Consideration loan notes, made up of three loan notes:
  - Issue 2 Fixed Rate Unsecured Loan Notes, with a value of £250,000; payment of this loan note is based on the acquisition achieving a gross profit of £2,364,000 for the twelve-month period ended 30 June 2014 and some utilisation of tax losses;
  - Issue 3 Fixed Rate Unsecured Loan Notes, with a value of £250,000; payment of this loan note is based on the acquisition achieving a gross profit of £2,364,000 for the twelve-month period ended 30 June 2015 and some utilisation of tax losses; and
  - Issue 4 Fixed Rate Unsecured Loan Notes, with a value of £250,000; payment of this loan note is based on the acquisition achieving a gross profit of £2,364,000 for the twelve-month period ended 30 June 2016 and some utilisation of tax losses.

At 30 June 2015, the following contingent liabilities exist:

Contingent consideration of £nil (2014: £nil, 2013: £nil) as the Directors and Proposed Directors are of the opinion that there will no tax benefit over £2,000,000 derived from the use of the accumulated tax losses.

In respect of Issue 4 Fixed Rate Unsecured Loan Notes of £nil (2014: £151,000, 2013: £250,000). The balance of £151,000 was released to the income statement in the year ended 30 June 2015 as the Directors and Proposed Directors are of the opinion that acquisition will not achieve a gross profit of £2,364,000 for the twelve-month period ended 30 June 2016. £99,000 was released in the year ended 30 June 2014. The release against goodwill was due to the settlement of a warranty claim in respect of a supplier volume agreement; the claim was in existence at the acquisition date.

Further to the above, as part of the transaction to acquire the group headed by Aggregated Telecom Limited, interest payments that had accrued pre-acquisition in the Aggregated Telecom group were extinguished at subsidiary level and became part of the deferred, contingent consideration in Selection Services Financing Limited. Under the terms of the sale and purchase agreement, this obligation would have been due if certain conditions have been met. In the Directors and Proposed Directors opinion, these conditions will not be achieved and consequently, this obligation has not been provided for in the accounts of the Selection Group.

### ***Other contingencies***

Her Majesty's Revenue and Customs ("HMRC") have raised an enquiry into certain tax planning relating to PAYE and NIC of a resigned director and shareholder. The result of any finding in favour of HMRC would result in a material cash outflow from the Selection Group, albeit remedied by an indemnity from the resigned director and shareholder. Any cash outflow would therefore be expected to be recovered by the Selection Group from the individual, with no net impact on the results of the Selection Group for any reporting period.

## **26. Subsidiary undertakings**

Selection Services Investments Limited holds investments in the following subsidiary undertakings:

	<i>Principal activity</i>	<i>County of incorporation</i>	<i>% ordinary share capital owned</i>
Selection Services EBT Trustee Limited	Employee trustee	England and Wales	100%
Selection Services Financing Limited <sup>#</sup>	IT services	England and Wales	100%
Selection Services Limited	IT services	England and Wales	100%
Selection Services Supportnet Limited	Dormant	England and Wales	100%
Cloud Data Limited	Dormant	England and Wales	100%

	<i>Principal activity</i>	<i>County of incorporation</i>	<i>% ordinary share capital owned</i>
Aggregated Telecom Limited	Telecom services	England and Wales	100%
Aggregated Telecom Employee Trust Trustee Limited	Dormant	England and Wales	100%
8el Leasing Limited	Dormant	England and Wales	100%
8el Limited	Dormant	England and Wales	100%
Selection Services Intellectual Property Limited	Dormant	England and Wales	33%

# Intermediate holding company

## 27. Pension costs

The Selection Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the Selection Group to the fund and amounted to £489,567 (2014: £350,694, 2013: £290,130). Contributions totalling £35,523 (2014: £79,372, 2013: £24,627) were payable to the fund at the year end and are included in trade and other payables.

## 28. Purchase of subsidiary undertakings, net of cash acquired

	<i>2013</i> <i>£000</i>	<i>2014</i> <i>£000</i>	<i>2015</i> <i>£000</i>
Acquisition of Selection Services Limited	(1)	–	–
Acquisition of Cloud Data Limited	317	–	–
Acquisition of Aggregated Telecom group	30	–	–
Less cash acquired on acquisition of Aggregated Telecom group	(202)	–	–
	<u>144</u>	<u>–</u>	<u>–</u>

On 17 December 2011, the Selection Group acquired the entire share capital of Cloud Data Limited and was accounted in the financial statements for the period ended 30 June 2012. The cash outflow in the year ended 30 June 2013 relates to deferred cash consideration paid as part of that acquisition.

## 29. Related party transactions

The Group has taken advantage of the exemption allowing it not to disclose transactions with entities wholly-owned by the Group.

Key management is considered to comprise only the directors. Directors' emoluments are as follows:

	<i>2013</i> <i>£000</i>	<i>2014</i> <i>£000</i>	<i>2015</i> <i>£000</i>
Aggregate emoluments including short-term employee benefits	412	955	817
Social security costs	51	122	114
Loss of office	45	79	30
Pension costs	20	51	41
	<u>528</u>	<u>1,207</u>	<u>1,002</u>

During the year ended 30 June 2015, purchases totalling £nil (2014: £16,203, 2013: £31,555) were made from Global Data Vault Inc., a company incorporated in the United States of America and owned by former director of the company, Anthony Galley.

Included within note 19 'Borrowings' under Current Liabilities are loans from directors amounting to £15,000 (2014: £15,000, 2013: £15,000) which are unsecured, interest free and repayable within one year.

**30. Subsequent events**

In September 2015, the Group changed their bankers from Barclays Bank plc to Royal Bank of Scotland plc. A new loan of £7,000,000, repayable in September 2018 was obtained, alongside an overdraft facility of £2,000,000. The existing Working Capital facility, the Office fit-out loan and bank overdraft were repaid in full, in addition to £3,500,000 of the Mezzanine Facility. Arrangement and legal fees in respect of the new funding arrangements amounted to £455,250.

Conditional on shareholder approval, the Company has agreed to acquire the entire issued share capital of Selection pursuant to the terms of the Acquisition Agreement, details of which are set out in paragraph 12.1(b) of Part VII.

**31. Ultimate controlling party**

The ultimate controlling party is a collection of investment funds managed by Palatine Private Equity LLP.

## PART VI

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

Set out below is an unaudited pro forma statement of aggregated net assets of Castle Street Investments Plc as enlarged by the acquisition of Selection Services Investments Limited and its subsidiaries (the "pro forma financial information"), which has been prepared based on the unaudited financial information for the six months ended 30 June 2015 for Castle Street Investments Plc extracted from the published interim accounts for the same period (see Part IV) and audited historical financial information as at 30 June 2015 for Selection Services Investments Limited as set out in Section B of Part V of this document. The pro forma financial information has been prepared in a manner consistent with the accounting policies adopted by the Company in preparing such information and on the basis set out in the notes below.

The pro forma financial information has been prepared to illustrate the effect on the combined net assets of the Enlarged Group as if the Acquisition and the Placing had occurred as at 30 June 2015.

The pro forma financial information has been prepared for illustrative purposes only. Because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position. Future results of operations may differ materially from those presented in the pro forma financial information due to various factors.

	<i>Adjustments as at 30 June 2015</i>					
	<i>Castle Street Investments 30 June 2015 (Unaudited) Note 1 £000</i>	<i>Selection 30 June 2015 (Audited) Note 2 £000</i>	<i>Net proceeds of Placing Note 3 £000</i>	<i>Debt repayments Note 4 £000</i>	<i>Cash consideration Note 5 £000</i>	<i>Pro forma net assets (Unaudited) £000</i>
<b>Assets</b>						
<b>Non-current assets</b>						
Intangible assets	–	2,345	–	–	–	2,345
Property, plant and equipment	–	1,847	–	–	–	1,847
Other non-current assets	–	632	–	–	–	632
Deferred tax	–	211	–	–	–	211
	<u>–</u>	<u>5,035</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,035</u>
<b>Current assets</b>						
Trade and other receivables	4,760	6,245	–	–	–	11,005
Cash and cash equivalents	17,954	–	28,351	(24,930)	(7,471)	13,904
Tax recoverable	557	–	–	–	–	557
	<u>23,271</u>	<u>6,245</u>	<u>28,351</u>	<u>(24,930)</u>	<u>(7,471)</u>	<u>25,466</u>
<b>Total assets</b>	<u>23,271</u>	<u>11,280</u>	<u>28,351</u>	<u>(24,930)</u>	<u>(7,471)</u>	<u>30,501</u>

<i>Adjustments as at 30 June 2015</i>						
	<i>CSI</i>	<i>Selection</i>	<i>Net</i>			
	<i>30 June</i>	<i>30 June</i>	<i>proceeds</i>	<i>Debt</i>	<i>Cash</i>	<i>Pro forma</i>
	<i>2015</i>	<i>2015</i>	<i>of Placing</i>	<i>repayments</i>	<i>consideration</i>	<i>net assets</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>Note 3</i>	<i>Note 4</i>	<i>Note 5</i>	<i>(Unaudited)</i>
	<i>Note 1</i>	<i>Note 2</i>				
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Liabilities</b>						
<b>Current liabilities</b>						
Trade and other payables	936	9,645	–	(3,330)	–	7,281
Deferred income	–	3,359	–	–	–	3,359
Bank overdraft	–	1,274	–	(1,274)	–	–
Finance leases	–	349	–	–	–	349
Borrowings	–	807	–	(792)	–	15
Provisions	391	202	–	–	–	593
	<u>1,327</u>	<u>15,636</u>	<u>–</u>	<u>(5,366)</u>	<u>–</u>	<u>11,597</u>
<b>Non-current liabilities</b>						
Borrowings	–	19,564	–	(19,564)	–	–
Finance leases	–	324	–	–	–	324
Provisions	–	672	–	–	–	672
	<u>–</u>	<u>20,560</u>	<u>–</u>	<u>(19,564)</u>	<u>–</u>	<u>996</u>
<b>Total liabilities</b>	<u>1,327</u>	<u>36,196</u>	<u>–</u>	<u>(24,930)</u>	<u>–</u>	<u>12,593</u>
<b>Net assets/(liabilities)</b>	<u>21,944</u>	<u>(24,916)</u>	<u>28,351</u>	<u>–</u>	<u>(7,471)</u>	<u>17,908</u>

**Notes**

1. The net asset figures of the Company have been extracted without material adjustment from the unaudited interim accounts as at 30 June 2015 as set out in the Company's published interim report for the 6 months ended 30 June 2015 (see Part IV).
2. The net asset figures of Selection Services Investments Limited have been extracted without material adjustment from the historical financial information as at 30 June 2015 as set out in Section B of Part V.
3. The gross proceeds of the Placing are expected to be £30.0m being £28.4m net of issue costs.
4. The Group intends to settle a number of its debt facilities, either on or shortly after admission from the Placing proceeds. The total amount expected to be settled is £26.8m. Of these amounts, debt of £24.9m was in existence as at 30 June 2015 and therefore this is the amount that has been adjusted in the pro forma statement of net assets.
5. Cash consideration in relation to the acquisition amounts to £7.5m. All other consideration will be settled by the issue of new ordinary shares in the Company.

## **PART VII**

### **ADDITIONAL INFORMATION**

#### **1. Responsibility statement**

- 1.1 The Directors and Proposed Directors, whose names appear on page 7 of this document, and the Company, accept individual and collective responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors, the Proposed Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 In connection with this document and/or the Placing, no person is authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised.

#### **2. The Company**

- 2.1 The Company was incorporated and registered in Scotland, where it remains domiciled, on 13 November 2009 as a private limited company with the name Easy Date Holdings Limited and with registered number SC368538. On 17 June 2010, the Company changed its name to Easydate Limited. The Company was re-registered as a public limited company under the name Easydate plc on 17 June 2010 when it was issued with a certificate of re-registration pursuant to section 96 of the Companies Act. On 11 January 2011, the Company changed its name to Cupid plc and on 13 January 2015 changed its name to Castle Street Investments plc.
- 2.2 The Company was admitted to trading on AIM on 30 June 2010.
- 2.3 The liability of the members of the Company is limited.
- 2.4 Immediately following completion of the Acquisition, the Company's principal activity will be that of a holding company. The principal activities of the Company's current subsidiaries are set out in paragraph 4 below.
- 2.5 The principal legislation under which the Company operates is the Companies Act and the regulations made thereunder.
- 2.6 The Company's registered office is at 23 Manor Place, Edinburgh EH3 7DX and will be changed to 24 Dublin Street, Edinburgh EH1 3PP following Admission. The telephone number of the Company is +44(0)131 526 3600 and will be changed to +44(0)131 524 7790 following Admission.
- 2.7 The accounting reference date of the Company is 31 December and will remain so on Admission.

#### **3. Share Capital**

- 3.1 The Company's ordinary shares are in registered form and are capable of transfer in both certificated form and uncertificated form. The register of members for the Company will be maintained by the Company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS13 8AE.
- 3.2 The Company was incorporated with no authorised share capital.
- 3.3 At the date of incorporation, 1 ordinary share of £1 was issued to Bill Dobbie.
- 3.4 On 1 January 2012, being the first date of the period required to be disclosed in this document as required under paragraph 21 of Annex I of the Prospectus Rules (as applied to AIM quoted companies

by Schedule Two to the AIM Rules for Companies), the issued share capital of the Company was £2,027,652.70 comprising 81,106,108 ordinary shares of £0.025 each, all of which were fully paid.

- 3.5 The history of the Company's share capital from 1 January 2012 (being the first day of the period required to be disclosed in this document) to the date of this document is as follows:
- 3.6 On 12 March 2012, the Company allotted and issued 398,560 Ordinary Shares on the exercise of options at a price of 3 pence per share.
- 3.7 On 12 April 2012, the Company allotted and issued 99,640 Ordinary Shares on the exercise of options at a price of 16.25 pence per share.
- 3.8 On 20 April 2012, the Company allotted and issued 35,000 Ordinary Shares on the exercise of options at a price of 94 pence per share.
- 3.9 On 31 May 2012, the Company allotted and issued 12,440 Ordinary Shares on the exercise of options at a price of 3 pence per share.
- 3.10 On 8 June 2012, the Company allotted and issued 13,072 Ordinary Shares on the exercise of options at a price of 176 pence per share.
- 3.11 On 27 June 2012, the Company allotted and issued 112,080 Ordinary Shares on the exercise of options at a price of 3 pence per share and 360 Ordinary Shares on the exercise of options at a price of 16.25 pence per share.
- 3.12 On 4 July 2012, the Company allotted and issued 21,559 Ordinary Shares on the exercise of options at a price of 94 pence per share and 6,786 Ordinary Shares on the exercise of options at a price of 3 pence per share.
- 3.13 On 13 September 2012, the Company allotted and issued 1,800,000 Ordinary Shares pursuant to a placing at a price of 200 pence per share.
- 3.14 On 25 September 2012, the Company allotted and issued 52,824 Ordinary Shares on the exercise of options at a price of 3 pence per share.
- 3.15 On 27 September 2012, the Company allotted and issued 11,333 Ordinary Shares on the exercise of options at a price of 94 pence per share.
- 3.16 On 2 October 2012, the Company allotted and issued 27,550 Ordinary Shares on the exercise of options at a price of 3 pence per share, 33,333 Ordinary Shares on the exercise of options at a price of 94 pence per share, and 39,117 Ordinary Shares on the exercise of options at a price of 176 pence per share.
- 3.17 On 3 October 2012, the Company allotted and issued 112,080 Ordinary Shares on the exercise of options at a price of 3 pence per share.
- 3.18 On 8 October 2012, the Company allotted and issued 49,800 Ordinary Shares on the exercise of options at a price of 3 pence per share, 68,166 Ordinary Shares on the exercise of options at a price of 94 pence per share, and 220,684 Ordinary Shares on the exercise of options at a price of 176 pence per share.
- 3.19 On 24 October 2012, the Company allotted and issued 181,334 Ordinary Shares on the exercise of options at a price of 16.25 pence per share, 131,666 Ordinary Shares on the exercise of options at a price of 94 pence per share, and 287,000 Ordinary Shares on the exercise of options at a price of 176 pence per share.
- 3.20 On 30 November 2012, the Company allotted and issued 21,680 Ordinary Shares on the exercise of options at a price of 16 pence per share, 120,387 Ordinary Shares on the exercise of options at a price of 94 pence per share, and 129,412 Ordinary Shares on the exercise of options at a price of 176 pence per share.

- 3.21 On 11 December 2012, the Company allotted and issued 5,000 Ordinary Shares on the exercise of options at a price of 94 pence per share.
- 3.22 As at 31 December 2012, the Company had 85,096,971 Ordinary Shares in issue.
- 3.23 On 14 January 2013, the Company purchased and cancelled 255,000 Ordinary Shares.
- 3.24 On 25 January 2013, the Company purchased and cancelled 143,000 Ordinary Shares.
- 3.25 On 1 February 2013, the Company purchased and cancelled 113,000 Ordinary Shares, 75,000 Ordinary Shares, 67,000 Ordinary Shares and 40,000 Ordinary Shares.
- 3.26 On 5 February 2013, the Company purchased and cancelled 40,000 Ordinary Shares and 23,000 Ordinary Shares.
- 3.27 On 14 February 2013, the Company purchased and cancelled 40,000 Ordinary Shares.
- 3.28 On 15 February 2013, the Company purchased and cancelled 82,347 Ordinary Shares and 50,000 Ordinary Shares.
- 3.29 On 20 February 2013, the Company purchased and cancelled 487,000 Ordinary Shares.
- 3.30 On 21 February 2013, the Company purchased and cancelled 30,000 Ordinary Shares.
- 3.31 On 5 March 2013, the Company purchased and cancelled 40,000 Ordinary Shares and 60,000 Ordinary Shares.
- 3.32 On 14 March 2013, the Company purchased and cancelled 179,653 Ordinary Shares.
- 3.33 As at 31 December 2013, the Company had 83,371,971 Ordinary Shares in issue.
- 3.34 On 11 December 2014, the Company cancelled 12,169,978 Ordinary Shares held in treasury.
- 3.35 As at 31 December 2014, the Company had 71,201,993 Ordinary Shares in issue.
- 3.36 On 23 December 2014, the Company passed a number of resolutions including the following resolution (as a special resolution):

“THAT, conditional on the approval of resolution 1 above and court approval: the amount standing to the credit of the Company’s share premium account as at the date of this Notice in the sum of £18,025,395 is cancelled; and the amount standing to the credit of the Company’s capital redemption reserve as at the date of this Notice in the sum of £347,374 is cancelled.”

The court order approving the reduction of capital was registered with the Companies House on 28 August 2015.

- 3.37 On 26 June 2015, the Company passed a number of resolutions including the following resolutions (as an ordinary resolution in the case of resolution 6 and as a special resolution in the case of resolution 7):

“6. That, in accordance with section 551 of the Companies Act 2006 (the “Act”), the Directors be generally and unconditionally authorised to allot shares in the Company or grant rights to subscribe for or convert any security into shares in the Company (the “Rights”) provided that: (a) the aggregate nominal amount of shares to be allotted in pursuance of such authority is £593,349.94; and (b) this authority shall expire, unless sooner revoked or varied by the Company in general meeting, on 26 June 2016 or, if earlier, at the conclusion of the Company’s annual general meeting to be held in 2016 save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or Rights granted after such expiry and the Directors may allot shares in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.



7. That subject to the passing of resolution 6 and in accordance with section 570 of the Act the Directors are generally empowered to allot equity securities of the Company (as defined in section 560 of the Act) for cash pursuant to the authority conferred by resolution 6 as if section 561 of the Act did not apply to such allotment provided that this power shall be limited to: (a) the allotment of equity securities in connection with an issue in favour of holders of ordinary shares of £0.025 each in the capital of the Company (the "Ordinary Shares") where the equity securities are offered to such holders in proportion (as nearly as may be) to the respective number of Ordinary Shares held, or deemed to be held, by that shareholder but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; (b) the allotment (otherwise than pursuant to paragraph (a) above or paragraph (c) below) of equity securities having a nominal value of £129,894.98 pursuant to the terms of any share option scheme or arrangement; and (c) the allotment (otherwise than pursuant to (a) or (b) above) of equity securities up to an aggregate nominal amount of £178,004.98 being equal to 10% of the issued share capital of the Company at the date of the notice of this Meeting; provided that this authority will expire, unless sooner revoked or varied by the Company in general meeting, on 26 June 2016 or, if earlier, at the conclusion of the Company's annual general meeting to be held in 2016 but the Company may at any time before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the power conferred by this resolution has expired."
- 3.38 As at 30 December 2015 (the latest practicable date prior to the date of this document), the issued and fully paid share capital of the Company was as follows:
- |                              | <i>Number</i> | <i>Nominal Value (£)</i> |
|------------------------------|---------------|--------------------------|
| <b>Issued and Fully Paid</b> |               |                          |
| Ordinary Shares              | 71,201,993    | 1,780,049.825            |
- 3.39 The issued share capital of the Company immediately following Admission assuming all of the Consideration Shares and the Placing Shares are issued and none of the outstanding Warrants are exercised will be as follows:
- |                              | <i>Number</i> | <i>Nominal Value (£)</i> |
|------------------------------|---------------|--------------------------|
| <b>Issued and Fully Paid</b> |               |                          |
| Ordinary Shares              | 172,555,803   | 4,313,895.075            |
- 3.40 As at 30 December 2015 (the latest practicable date prior to the date of this document), the Company has not granted any options or warrants to subscribe for Ordinary Shares which remain outstanding.
- 3.41 On Admission, the Company will have outstanding warrants over 8,627,790 Ordinary Shares, further details of which are set out in paragraph 12(e) of this Part VII.
- 3.42 The Company has not issued any convertible loan notes.
- 3.43 Save as disclosed in paragraph 3.41 above, the Ordinary Shares proposed to be issued pursuant to the Placing and the Consideration Shares proposed to be issued on completion of the Acquisition:
- (a) no share or loan capital of the Company or any of its subsidiaries has been issued or been agreed to be issued fully or partly paid, either for cash or for consideration other than cash and no issue is now proposed; and
  - (b) neither the Company nor any of its subsidiaries has granted any options, warrants or convertible loan notes over its shares or loan capital which remains outstanding or has agreed, conditionally or unconditionally, to grant any such options, warrants or convertible loan notes.

- 3.44 The Placing Shares and the Consideration Shares will be allotted fully paid in registered form and may be held in either certificated or in uncertificated form. Application will be made to the London Stock Exchange for the Enlarged Issued Share Capital (including the Placing Shares and the Consideration Shares) to be admitted to trading on AIM. All the Ordinary Shares (including the Placing Shares and the Consideration Shares) may be transferred into the CREST system for which there will be no charge to stamp duty or stamp duty land tax on the transfer (unless made for consideration).
- 3.45 The nominal value of the Placing Shares to be issued under the Placing is 2.5 pence. The issue price of the Placing Shares will be 30 pence which represents a premium of 1,100 per cent. over their nominal value. The difference between the issue price and the nominal value will be credited to the share premium account.
- 3.46 The Placing Shares were created under and are subject to the provisions of the Companies Act and are issued in pound sterling.
- 3.47 The Placing Shares will, on issue, rank for all dividends and other distributions (if any) declared or made or paid in respect of Ordinary Shares after the date of issue and no Shareholders in the Company enjoy different or enhanced voting rights.
- 3.48 The Company had one ordinary share of £1 in issue on incorporation and 71,201,993 Ordinary Shares in issue at the date of this document.
- 3.49 Save as disclosed in this document, there are no Ordinary Shares in the Company which are held by, or on behalf of, the Company and none of the Company's subsidiary undertakings holds any shares in the Company.
- 3.50 The International Security Identification Number for the Ordinary Shares to be admitted to trading on AIM is GB00B4NJ4984.
- 3.51 Save for the Placing Shares to be issued pursuant to the Placing, the Consideration Shares to be issued pursuant to the Acquisition and the Warrants, there is no present intention to issue any of the authorised but unissued share capital of the Company and there are no agreements or undertakings pursuant to which the Company has agreed to issued Ordinary Shares.
- 3.52 On completion of the Placing and the Acquisition the issued share capital of the Company shall be increased by 101,353,810 Ordinary Shares resulting in an immediate dilution of 142 per cent. in aggregate excluding the exercise of the Warrants referred to in paragraph 3.41 above.

#### 4. **Subsidiary undertakings**

- 4.1 As at the date of this document, the Company has the following subsidiary undertakings:

<i>Company</i>	<i>Country of Incorporation</i>	<i>Principal Activity</i>	<i>Direct Shareholder</i>	<i>% of Ownership Interest</i>	<i>% of Voting Power</i>
Castle Digital Services Inc.	USA	Non-trading	The Company	100	100
Cupid.com Inc.	USA	Non-trading	The Company	100	100
Assistance Genie Logiciel SAS	France	Non-trading	The Company	100	100
Global Digital Corporation Limited	Scotland	Non-trading	The Company	100	100
Hooya Digital Limited	Cyprus	Non-trading	Global Digital Corporation Limited	100	100
Frindr Limited	England	Non-trading	Global Digital Corporation Limited	100	100
Tangle Labs Ltd	England	Non-trading	The Company	100	100
Cupid Labs Limited	Scotland	Non-trading	The Company	100	100

4.2 On completion of the Acquisition, the Company will hold the following additional subsidiaries:

<i>Company</i>	<i>Country of Incorporation</i>	<i>Principal Activity</i>	<i>Direct Shareholder</i>	<i>% of Ownership Interest</i>	<i>% of Voting Power</i>
Selection	England	Holding Company	The Company	100	100
Aggregate Telecom Limited	England	Telecom services	Selection Services Financing Limited	100	100
Selection Services Financing Limited	England	IT services	Selection	100	100
Selection Services EBT Trustee Limited	England	Employee trustee	Selection	100	100
Selection Services Limited	England	IT services	Selection Services Financing Limited	100	100
8EL Leasing Limited	England	Dormant	Aggregate Telecom Limited	100	100
8EL Limited	England	Dormant	Aggregate Telecom Limited	100	100
Cloud Data Limited	England	Dormant	Selection Services Financing Limited	100	100
Selection Services Intellectual Property Limited	England	Dormant	Cloud Data Limited	33	33
Selection Services Supportnet Limited	England	Dormant	Selection Services Limited	100	100
Aggregated Telecom Employee Trust Trustee Limited	England	Dormant	Aggregate Telecom Limited	100	100

\* Cloud Data Limited holds 1 C ordinary share, Global Data Limited holds 1 B ordinary share and Anthony Galley holds 1 A ordinary share.

## 5. Articles of Association

The Articles contain provisions, *inter alia*, to the following effect:

### 5.1 Objects

The Articles contain no specific restriction on the Company's objects and therefore, by virtue of section 31(1) of the Companies Act, the Company's objects are unlimited.

### 5.2 General meetings

The board may call general meetings and, on the requisition of members pursuant to the provisions of the Companies Act, shall forthwith convene a general meeting in accordance with that Companies Act. If there are not within the United Kingdom sufficient directors capable of acting to call a general meeting, any director may call a general meeting. If there is no director able to act, any two members may call a general meeting for the purpose of appointing Directors.

An annual general meeting shall be called by at least 21 clear days' notice. All other general meetings shall be called by at least 14 clear days' notice. Subject to the provisions of the Articles and to any restrictions imposed on any shares, every notice of meeting shall be given to all the members, all other persons who are at the date of the notice entitled to receive notices from the Company and to the directors and auditors.

The accidental omission to give notice of a meeting or any document relating to the meeting, or to send a form of proxy with a notice as required by the Articles, to any person entitled to receive the same, or the non-receipt of a notice of meeting or related document or form of proxy by such a person, shall not invalidate the proceedings at that meeting. Subject to the Companies Act, a general meeting may be called by shorter notice than that specified in this paragraph and will be deemed duly called if it is so agreed: (a) in the case of an annual general meeting by all the members entitled to attend and vote at that meeting; and (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety five per cent in nominal value of the shares giving that right.

Every notice shall specify: (a) the place, the date and time of the meeting; (b) the general nature of the business to be dealt with at the meeting; (c) in the case of special business, the general nature of the business to be transacted; (d) in the case of annual general meeting, that the meeting is such; (e) if the meeting is convened to consider the passing of a special resolution, the intention to propose the resolution as a special resolution and the terms of the resolution; (f) and with reasonable prominence that a member entitled to attend and vote may appoint one or more proxies to attend and vote instead of him and that a proxy need not be a member.

No business shall be transacted at any meeting unless a quorum is present when the meeting proceeds to business. The absence of a quorum shall not preclude the appointment of a chairman in accordance with the provisions of the Articles, which shall not be treated as part of the business of the meeting. The quorum for a general meeting is two members present in person or by proxy and entitled to vote on the business to be transacted at the meeting.

If such a quorum is not present within 15 minutes (or such longer time not exceeding one hour as the chairman of the meeting may decide) from the time appointed for the meeting, the meeting, if convened on the requisition of or by members, shall be dissolved. In any other case it shall stand adjourned to the same place and time one week later, or to such day (not being more than 28 days after the date appointed for the meeting) and to such time and place as the board may determine. If the meeting is adjourned for 14 days or more, the Company shall give not less than five days' notice of the adjourned meeting by advertisement in one national newspaper, but no other notice shall be required. If at any such adjourned meeting a quorum is not present within 15 minutes from the time appointed for the meeting, any member present in person or by proxy and entitled to vote on the business to be transacted at the meeting shall be a quorum.

### **5.3 *Voting rights***

Subject to any rights or restrictions attached to any shares, on a vote on a resolution on a show of hands: (a) every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative has one vote; and (b) every proxy present who has been duly appointed by a member entitled to vote on a resolution has one vote, unless the proxy or the representative is himself a member entitled to vote in which case he will also have the vote he is entitled to by virtue of being himself a member.

Subject to any rights or restrictions attached to any shares, on a resolution on a poll taken at a meeting every member has one vote in respect of each share held by him.

### **5.4 *Suspension of rights***

Notwithstanding anything in the Articles to the contrary, if: (a) a disclosure notice has been served on a member or any other person appearing to be interested (as defined in the Articles) in the specified shares (as defined in the Articles); and (b) the Company has not received (in accordance with the terms of that disclosure notice) the information required in that disclosure notice in respect of any of the specified shares within 14 days after the service of that disclosure notice; then the board may (subject to the paragraph below) determine that the member holding the specified shares shall, on the issue of a restriction notice (as defined in the Articles) referring to those specified shares in respect of which information has not been received, be subject to the restrictions (as defined in the Articles) referred to

in that restriction notice, and on the issue of such restriction notice such member and the specified shares shall be so subject. As soon as practicable after the issue of a restriction notice the Company shall serve a copy of the notice on the member holding the specified shares.

Where the aggregate number of shares of the same class as the specified shares in which any person appearing to be interested in the restricted shares (together with persons connected with him) appears to be interested represents less than 0.25 per cent (in nominal value) of the shares of that class (excluding any share of their class held as treasury shares) in issue at the time of service of the disclosure notice in respect of such specified shares only the restriction referred to in paragraph (a) below may be determined by the board to apply.

Subject to the paragraph above, the restrictions which the board may determine shall apply to restricted shares pursuant to this paragraph shall be one or more, as determined by the board, of the following: (a) that the member holding the restricted shares shall not be entitled, in respect of the restricted shares, to attend or be counted in the quorum or vote either personally or by proxy at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right or privilege in relation to any general meeting or any meeting of the holders of any class of shares; (b) in the case of certificated transfers, that no transfer of the restricted shares shall be effective or shall be registered by the Company; and (c) that no dividend (or part of a dividend or other moneys payable) shall be paid in respect of the restricted shares and that, in circumstances where an offer of the right to elect to receive shares instead of cash in respect of any dividend is or has been made, any election made thereunder in respect of such specified shares shall not be effective. For the purpose of enforcing paragraph (b) above, the board may give notice to the relevant member requiring the member to change the restricted shares held in uncertificated form to certificated form by the time stated in the notice, and stating that the member may not change any of the restricted shares held in certificated form to uncertificated form. If the member does not comply with the notice, the board may authorise the operator to change the restricted shares held in uncertificated form to certificated form.

#### **5.5 *Variation of rights***

Subject to the Companies Act, the rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not the Company is being wound up, either with the consent in writing of the holders of three-fourths of the nominal value of the issued shares of the relevant class or with the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class (but not otherwise).

#### **5.6 *Classes of share***

The share capital of the Company is currently made up of Ordinary Shares. The Ordinary Shares are voting shares and benefit from all of the rights attaching to those shares contained within the Articles and as summarised in paragraphs 5.3 to 5.5 and 5.7 to 5.9 of this Part VII.

#### **5.7 *Transfer of shares***

All transfers of shares which are in certificated form may be effected by transfer in writing in any usual form or in any other form which the board may approve and shall be executed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect of it.

All transfers of shares which are in uncertificated form may be effected by means of a relevant system in the manner provided for and subject as provided in the Regulations and the rules of the relevant system.

The board may, in its absolute discretion, decline to recognise any instrument of transfer relating to shares in certificated form unless: (a) it is in respect of only one class of shares; (b) it is lodged (duly stamped if required) at the office where the register of members is held accompanied by the relevant

share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do); and (c) it is in favour of more than four persons jointly. In the case of a transfer of shares in certificated form by a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange the lodgement of share certificates will only be necessary if and to the extent that certificates have been issued in respect of the shares in question.

Subject to the paragraph below and the requirements of the listing rules of the United Kingdom Listing Authority and the AIM Rules (if either such rules apply to the Company at the relevant time), the board may, in its absolute discretion, refuse to register any transfer of shares in uncertificated form in the circumstances set out in the Regulations and where, in the case of a transfer to joint holders, the number of joint holders to whom the share in uncertificated form is to be transferred exceeds four.

If the board refuses to register a transfer of securities, it shall within two months after the date on which the transfer was lodged with the Company (in the case of shares held in certificated form) or after the date on which the Company received instructions from the operator of the relevant system (in the case of shares held in uncertificated form) send to the transferee notice of the refusal together with reasons for the refusal.

#### **5.8 *Allotment of shares***

Subject to the provisions of the Companies Act and without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the Company may determine, or in the absence of such determination, or so far as any such resolution does not make specific provision, as the board may determine.

#### **5.9 *Dividends and other distributions***

Subject to the provisions of the Companies Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the board.

Except as otherwise provided by the rights attached to the shares all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid but (for the purposes of this paragraph only) no amount paid on a share in advance of calls shall be treated as paid on the share. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but, if any share is issued on terms providing that it shall rank for dividend as from a particular date, that share shall rank for dividend accordingly.

Subject to the provisions of the Companies Act, the board may pay interim dividends if it appears to the board that they are justified by the profits of the Company available for distribution. If the share capital is divided into different classes of shares, the board may pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividend as well as on shares which confer preferential rights with regard to dividend, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears. The board may also pay at intervals settled by it any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment. Provided the board acts in good faith the directors shall not incur any liability to the holders of shares conferring preferred rights for any loss that they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

The board may deduct from any dividend or other moneys payable on or in respect of a share to any member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to shares of the Company.

No dividend or other moneys payable in respect of a share shall bear interest as against the Company unless otherwise provided by the rights attached to the share. All unclaimed dividends may be retained by the Company or invested or made use of by the Company as the board may think fit until they are claimed and so that the Company shall not be obliged to account for any interest or other income derived from them nor shall it be constituted a trustee in respect of them or be responsible for any loss thereby arising. Any interest or profits earned on unclaimed dividends invested or otherwise made use of shall belong to the Company. Any dividend which has remained unclaimed for twelve years from the date when it became due for payment shall be forfeited and cease to remain owing by the Company and shall thereafter belong to the Company absolutely.

Any dividend or other moneys payable in cash in respect of a share may be paid by: (a) cheque, warrant or money order sent by post to the address in the register of the person entitled to the moneys or, if two or more persons are the holders of the share or are jointly entitled to it by reason of the death or bankruptcy of the holder or otherwise by operation of law, to the address in the Register of that one of those persons who is first named in the register in respect of the joint holding or to such person and to such address as the person or persons entitled to the moneys may in writing direct. Every such cheque, warrant or money order shall be made payable to the person or persons entitled to the moneys or to such other person as the person or persons so entitled may in writing direct and shall be sent at the risk of the person or persons so entitled. Any such cheque, warrant or money order may be crossed "account payee" although the Company shall not be obliged to do so; (b) direct debit or bank transfer to such account as the person or persons entitled to the moneys may in writing direct; or (c) such other method of payment as the person or persons entitled to the moneys may in writing agree to.

In respect of shares in uncertificated form, where the Company is authorised to do so by or on behalf of the holder or joint holders in such manner as the Company shall from time to time consider, the Company may also pay any such dividend or other moneys by means of the relevant system concerned (subject always to the facilities and requirements of that relevant system). In respect of shares in uncertificated form, every such payment made by means of the relevant system shall be made in such manner as may be consistent with the facilities and requirements of the relevant system concerned. Without prejudice to the generality of the foregoing, in respect of shares in uncertificated form, such payment may include the sending by the Company or by any person on its behalf of an instruction to the operator of the relevant system to credit the cash memorandum account of the holder or joint holders.

If in respect of dividends or other moneys payable in respect of any shares cheques, warrants or money orders have been sent through the post in accordance with the provisions of the preceding article but have been returned undelivered or left uncashed during the periods for which they are valid or bank transfers have not been accepted either: (a) on two consecutive occasions; or (b) on any one occasion and reasonable enquiries have failed to establish another address or account of the person entitled to the moneys; the Company need not thereafter despatch further cheques, warrants or money orders or give instructions for bank transfers in payment of dividends or other moneys payable on or in respect of the share in question until the member or other person entitled thereto shall have communicated with the Company and supplied in writing to the office where the register of members is held a new address or account to be used for the purpose.

Any general meeting declaring a dividend may, on the recommendation of the board, direct payment or satisfaction of such dividend wholly or in part by the distribution of specific assets and in particular of fully paid shares or debentures of any other company, and the board shall give effect to such directions. Where any difficulty arises in regard to the distribution, the board may settle the same as it thinks expedient, and in particular may fix the value for distribution of such specific assets or any part thereof and may determine that cash payment shall be made to any members on the footing of the value so fixed in order to adjust the rights of those entitled to participate in the dividend, and may vest any such specific assets in trustees, on trust for the members entitled to the dividend, as may seem expedient to the board.

In accordance with the provisions of the Articles, the board may, with the sanction of an ordinary resolution of the Company, offer the holders of shares the right to elect to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the board) of such dividend or dividends as are specified by such resolution.

#### **5.10 *Appointment of directors***

Unless otherwise determined by ordinary resolution of the Company, the number of directors shall not be subject to any maximum but shall not be less than two.

Subject to the provisions of the Articles, the Company may by ordinary resolution appoint a person who is willing to act to be a director either to fill a vacancy or as an additional director.

The board may appoint a person who is willing to act to be a director, either to fill a vacancy or as an additional director, provided that the appointment does not cause the number of directors to exceed any number fixed by or in accordance with the Articles as the maximum number of directors. A director so appointed shall hold office only until the next following annual general meeting and shall not be taken into account in determining the directors who are to retire by rotation at such meeting under the Articles. If not reappointed at such annual general meeting, he shall vacate office at its conclusion.

#### **5.11 *Remuneration of directors***

The Company shall pay to the directors (other than any executive directors appointed under the Articles) remuneration (excluding any bonus payments made or to be made under the terms of any performance bonus scheme operated by the Company from time to time) of such amount as the directors shall from time to time determine provided that, unless otherwise approved by the Company in general meeting, the aggregate of the remuneration of such directors shall not exceed £500,000 per year (excluding any bonus payments made or to be made under the terms of any performance bonus scheme operated by the Company from time to time). The aggregate remuneration shall be divided among such directors in such manner as the directors may determine. A director holding office for part only of a year shall be entitled to a proportionate part of a full year's remuneration.

Any director who, by request of the board, performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Company in general meeting may from time to time determine.

The board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any director who has held but no longer holds any executive office or employment with the Company or with any body corporate which is or has been a subsidiary undertaking or a predecessor in business of the Company or of any subsidiary undertaking, and for any member of his family (including a spouse and a former spouse) or any person who is or was dependent on him, and may (as well before as after he ceases to hold such office or employment) contribute to any fund and pay premiums for the purchase or provision of any such benefit.

#### **5.12 *Retirement and removal of directors***

At the first annual general meeting all the directors shall retire from office, and at every subsequent annual general meeting one third of the directors who are subject to retirement by rotation, or, if their number is not three or a multiple of three, the number nearest to but not less than one-third, shall retire from office. If there are fewer than three directors who are subject to retirement by rotation, one shall retire from office. If any one or more directors were last appointed or reappointed three years or more prior to the meeting or were last appointed or reappointed at the third immediately preceding annual general meeting, he or they shall retire from office and shall be counted in obtaining the number required to retire at the Meeting.



Subject to the provisions of the Companies Act, the directors to retire by rotation shall be first, a director who wishes to retire and not offer himself for reappointment and, second, those who have been longest in office since their last appointment or reappointment. 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 on each occasion (both as to number and identity) shall be determined by the composition of the board at the date of the notice convening the annual general meeting and no director shall be required to retire by rotation or be relieved from retiring by rotation by reason of any change in the number or identity of the directors after the date of the notice but before the close of the meeting.

If the Company, at the meeting at which a director retires by rotation, does not fill the vacancy the retiring director shall, if willing to act, be deemed to have been reappointed unless at the meeting it is resolved not to fill the vacancy or unless a resolution for the reappointment of the director is put to the meeting and lost.

In addition to any power of removal conferred by the Companies Act, the Company may by special resolution remove any director before the expiration of his period of office and may (subject to the Articles) by ordinary resolution appoint another person who is willing to act to be a director in his place. Such removal shall be without prejudice to any claim such director may have for damages for breach of any contract of service between him and the Company. Any person so appointed shall be treated, for the purpose of determining the time at which he or any other director is to retire, as if he had become a director on the day on which the person in whose place he is appointed was last appointed or reappointed a director.

#### **5.13 *Directors' interests and conflicts***

Subject to the paragraph below, a director shall not be entitled to vote on any resolution of the board or of a committee of the board concerning any contract, transaction, arrangement or proposal to which the Company is or is to be a party and in which he (or a person connected with him) has a material interest. A director shall not be counted in the quorum for a meeting of directors in relation to any resolution on which he is not entitled to vote.

Subject to the Companies Act, a director shall be entitled to vote and shall be counted in the quorum in respect of any resolution concerning any contract, transaction, arrangement or proposal in which he has an interest:

- (a) which involves the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (b) which involves the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part, either alone or jointly with others under a guarantee or indemnity or by the giving of security;
- (c) which relates to a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of or 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;
- (d) which relates to a contract, arrangement, transaction or proposal to which the Company is or is to be a party concerning another company (including a subsidiary undertaking of the Company) in which he is directly or indirectly interested whether as an officer, shareholder, creditor or otherwise (a "relevant company") if he (together with persons connected with him) does not to his knowledge hold an interest in or is otherwise beneficially interested in shares (as such term is defined in Part 22 of the Companies Act representing one per cent or more of any class of the equity share capital of or the voting rights in the relevant company);

- (e) which relates to a contract, arrangement, transaction or proposal for the benefit of employees of the Company or any of its subsidiary undertakings (including any pension fund or retirement, death or disability scheme) which does not award him a privilege or benefit not generally awarded to the employees to whom it relates;
- (f) which relates to a contract, arrangement, transaction or proposal concerning the purchase or maintenance of any insurance policy for the benefit of directors or for the benefit of persons including directors;
- (g) which involves the giving of indemnities in favour of directors;
- (h) which involves the funding of expenditure by any director or directors on defending criminal, civil or regulatory proceedings or actions against him or them or in connection with an application to the court for relief or defending him or them in any regulatory investigations;
- (i) in shares, debentures or other securities of the Company or by reason of any other interest in or through the Company; and
- (j) in respect of which his interest or the interest of directors generally has been authorised by ordinary resolution.

Subject to the paragraph below, the board may authorise any matter proposed to it in accordance with the Articles which would, if not so authorised, result in a director infringing his duty under section 175 of the Companies Act to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company.

Any authorisation given pursuant to the paragraph above will only be effective if:

- (k) any requirement as to quorum at the meeting at which the matter is considered is met without counting the director in question and any other interested director (the "Interested Directors"); and
- (l) the matter was agreed to without any Interested Director voting or would have been agreed to if the votes of any Interested Director had not been counted;
  - (i) may be given subject to any limits or conditions (including as to duration) as the board may expressly impose at the time of the giving of the authorisation or subsequently from time to time; and
  - (ii) may be varied or terminated by the board at any time (but this will not affect anything done by the relevant director prior to such variation or termination in accordance with the terms of such authority).

#### 5.14 *Powers of the directors*

Subject to the provisions of the Companies Act and the Articles and to any directions given by special resolution, the business of the Company shall be managed by the board who may exercise all the powers of the Company. No alteration of the Articles and no such direction shall invalidate any prior act of the board which would have been valid if that alteration had not been made or that direction had not been given. The powers given by this paragraph shall not be limited by any special power given to the board by the Articles and a duly convened meeting of the board at which a quorum is present may exercise all powers exercisable by the board.

The board may exercise all the powers of the Company to borrow or raise money and to mortgage and charge its undertaking, property, assets and uncalled capital or any part thereof, and, subject to the Companies Act, to create and issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company, or any subsidiary undertaking or of any third party, save that the maximum amount which may be borrowed without the prior consent of the Company's shareholders by ordinary resolution shall be 4 x Shareholders' Funds. For the avoidance

of doubt for calculating the amount borrowed by the Company for the purposes of this paragraph any amounts on deposit will be deducted for any amount or amounts borrowed.

For the purposes of this paragraph, "Shareholders' Funds" means the total of:

- (a) the Company's nominal paid up share capital;
- (b) the amount in the Company's share premium account; and
- (c) both capital and revenue reserves (consolidated if appropriate);

but deducting amounts:

- (d) arising from writing up the book values of capital assets;
- (e) attributable to minority interests; and
- (f) set aside for deferred taxation.

#### 5.15 *Return of Capital*

On a winding up of the Company, the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie the whole or any part of the assets of the Company, and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds, and may for such purposes set such value as he deems fair upon any one or more class or classes of property, and may determine how such divisions shall be carried out as between members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefits of members as the liquidator, with the like authority, shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no member shall be compelled to accept any shares in respect of which there is a liability.

*Other points to note in relation to the Articles:*

- 5.16 The provisions of section 561 of the Companies Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employee's share scheme as defined in section 1166 of the Companies Act) will apply to the extent not disapplied by a special resolution of the Company.
- 5.17 There is nothing contained in the Articles which would have an effect of delaying, deferring or preventing a change in control of the Company.
- 5.18 There is nothing contained in the Articles which governs the ownership threshold above which member ownership must be disclosed.
- 5.19 There are no conditions in the Articles governing changes in capital which are more stringent than is required by law.
- 5.20 Save as set out above, there are no provisions in the Articles or otherwise which give any person enhanced rights in the Company's profits.
- 5.21 There are no conversion or redemption rights attached to any of the shares in the Company pursuant to the Articles or otherwise.
- 5.22 The following defined term in the summary above shall have the following meaning (as set out in the Articles): "**disclosure notice**" means a notice issued by or on behalf of the Company requiring disclosure of interests in shares pursuant to section 793 of the Companies Act.

## 6. Directors' and other interests

- 6.1 The interests of each of the Directors and the Proposed Directors in the ordinary share capital of the Company (all of which are beneficial) which have been or will be required to be notified to the Company pursuant to section 5 of the DTR or which will be required to be maintained under the provisions of section 808 of the Companies Act, or which are interests of a person connected with any of the Directors or the Proposed Directors (within the meaning of section 252 of the Companies Act), which interests would be required to be disclosed pursuant to the DTR, and the existence of which is known to the Directors and the Proposed Directors or could with reasonable diligence be ascertained by them as at 30 December 2015 (being the last date practicable prior to the publication of this document) and as at Admission are as set out below:

<i>Name</i>	<i>Number of Ordinary Shares as at the date of this document</i>	<i>% of Existing Issued Share Capital as at the date of this document<sup>1</sup></i>	<i>Number of Ordinary Shares on Admission</i>	<i>% of Enlarged Issued Share Capital<sup>2</sup></i>
Niall Stirling	7,588	0.01	7,588	0.00
Bill Dobbie	14,676,053	20.61	14,676,053	8.50
Max Royde*	15,235,000	21.40	28,235,000	16.36
Andy Ross**	Nil	Nil	Nil	Nil
Jonathan Watts	Nil	Nil	83,333	0.05
Julian Phipps	Nil	Nil	Nil	Nil
Katherine Roe	Nil	Nil	16,666	0.01
<b>Total</b>	<b>29,918,641</b>	<b>42.02</b>	<b>43,018,640</b>	<b>24.92</b>

\* The Ordinary Shares are held by Kestrel Partners LLP of which Max Royde is a designated member

\*\* Andy Ross is a partner in MXC Capital which on Admission will hold 43,000,000 Ordinary Shares and 8,627,790 Warrants in the Company.

- 6.2 Andy Ross and Julian Phipps will be participating in the New Employee Share Scheme to be established by the Company further details of which are set out in paragraph 11 of Part I and paragraph 19 of this Part VII. Jonathan Watts will be granted options to the value of £200,000, exercisable at the Placing Price after Admission.
- 6.3 Save as disclosed in this document, none of the Directors nor the Proposed Directors has or will have any interest in the ordinary share capital or loan capital of the Company following Admission nor does any person connected with the Directors or the Proposed Directors (within the meaning of section 252 of the Companies Act) have any such interest whether beneficial or non-beneficial.
- 6.4 Save as disclosed in this document, none of the Directors or the Proposed Directors is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected by the Company and remains in any respect outstanding or unperformed.
- 6.5 There are no outstanding loans made or guarantees granted or provided by the Company to or for the benefit of any Director or Proposed Director.
- 6.6 There is no Director or Proposed Director nor member of a Director's or Proposed Director's family who has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares.

## 7. Substantial Shareholders

- 7.1 As at 30 December 2015 (being the last practicable date prior to the date of this document) and as at Admission, save as set out below the Company was not aware of any person, who, directly or indirectly, had an interest representing 3 per cent. or more of the issued ordinary share capital (being the threshold at or above which, in accordance with the provisions of section 5 of the DTR, any interest must be disclosed by the Company).

<i>Name</i>	<i>Number of Ordinary Shares as at the date of this document</i>	<i>% of the Existing Issued Share Capital as at the date of this document<sup>1</sup></i>	<i>Number of Ordinary Shares on Admission</i>	<i>% of Enlarged Issued Share Capital<sup>2</sup></i>
Kestrel Partners LLP*	15,235,000	21.4	28,235,000	16.4
Bill Dobbie	14,676,053	20.6	14,676,053	8.5
Richard Griffiths & controlled undertakings	9,019,378	12.7	9,019,378	5.2
SPARK Ventures plc	3,492,065	4.9	3,492,065	2.0
Hargreaves Lansdown	3,560,872	5.0	3,560,872	2.1
MXC Capital	Nil	Nil	43,000,000	24.9
Coltrane Asset Management	Nil	Nil	11,105,497	6.4
Elevage Limited	Nil	Nil	6,666,668	3.9
Liontrust Asset Management	Nil	Nil	6,169,721	3.6
Henderson Volantis	Nil	Nil	5,552,748	3.2
<b>Total</b>	<b>58,983,368</b>	<b>64.6</b>	<b>131,478,002</b>	<b>76.2</b>

\* Max Royde is a designated member of Kestrel Partners LLP

- 7.2 Save as disclosed in this document, the Directors and the Proposed Directors are not aware of any person who directly, or indirectly, jointly or severally, exercises or could exercise control over the Company.
- 7.3 The Company's shareholders listed in paragraphs 6.1 and 7.1 of this Part VII do not have voting rights preferential to other holders of Ordinary Shares.
- 7.4 Save as set out in this document, the Directors and the Proposed Directors are not aware of any arrangements in place or under negotiation which may, at a subsequent date, result in a change of control of the Company.

## 8. Additional information on the Directors

- 8.1 Other than directorships of the Company, the Directors and the Proposed Directors have held the following directorships or been partners in the following partnerships within the five years prior to the date of this document:

<i>Name</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
Niall Stirling	Cupid Labs Ltd Frindr Ltd Global Digital Corporation Ltd Tangle Labs Limited	Easydate Limited Hooya Digital Ltd Isan UK Limited NSI (Holdings) Limited Roomwise Ltd
Bill Dobbie	Biebod Properties Limited Biebod (Ukraine) Limited Clark's Cider Ltd Cloudsoft Corporation Limited Cupid Labs Ltd EAL Lending Limited Edinburgh Alternative Finance Limited Edinburgh Alternative Lending Limited Frindr Ltd	AH Health Communications Limited Amanda Hamilton Weight Loss Limited Biebod Developments Limited Cupid Labs Ltd Easydate Limited Elms Hall (SPV) Limited Global Digital Corporation Ltd Hooya Digital Ltd IDE 2011 Ltd IDE Jobs (UA) Limited

<i>Name</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
Bill Dobbie (continued)	Global Digital Corporation Ltd Houseology Design Group Limited Interactive Dating & Entertainment Limited Interactive Digital Entertainment Group Limited Interactive Digital Entertainment Holdings Limited Interactive Digital Entertainment Limited Logicalware Ltd M Capital Investment Partners LLP R&B Distillers Limited Salvators Investments Limited Salvators Lending Limited Tag Games Limited Tangle Labs Limited Uisge Tech Limited Vacanze Bartolomei Limited	IDE Price Limited Interactive Dating & Entertainment Limited Interactive Digital Entertainment Group Limited Interactive Digital Entertainment Holdings Limited Interactive Digital Entertainment Limited Maxymiser Limited New Company 2009 Limited NSI (Holdings) Limited Personal Ventures Limited Romanceap Limited Roomwise Ltd
Max Royde	Elms Road Capital Limited Gresham Computing plc Kestrel Investment Partners LLP Kestrel Partners LLP	Ultimate Finance Holdings Limited
Andy Ross	None	Capita Managed IT Solutions Limited Charity Pay Limited Valldata Group Limited Valldata Group EBT Limited Valldata Services Limited
Julian Phipps	Daisy Updata Communications Limited	Capita Managed IT Solutions Limited Kent LEP 1 Limited Kier (Kent) PSP Limited
Jonathan Watts	Alaya Samadhi Limited Jolis Ltd The Second Scotts Atlantic Distributors LLP The Third Scotts Atlantic Distributors LLP	Ego Acquisitions Limited Ego Holdings Limited Ego Midco Limited Fiberspeed Limited Geo Metro Limited Geo Networks Limited
Katherine Roe	Roe Resources Limited	None

8.2 Save as disclosed in paragraphs 8.3 to 8.7, none of the Directors or the Proposed Directors has:

- (a) any unspent convictions in relation to indictable offences;
- (b) had any bankruptcy order made against him or entered into any voluntary arrangements;
- (c) been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, whilst he was a director of that company or within the 12 months after he had ceased to be a director of that company;
- (d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement, whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

- (e) been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - (f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
  - (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.
- 8.3 Bill Dobbie was a director of New Company 2009 Limited on 15 December 2009 when the company passed an extraordinary resolution to put the company into members' voluntary liquidation and appoint a liquidator. The company was dissolved on 8 October 2011.
- 8.4 Bill Dobbie resigned as a director of Elms Hall (SPV) Limited on 1 April 2013. The company passed a special resolution to put the company into members' voluntary liquidation and appoint a liquidator on 18 December 2014, and is currently in liquidation.
- 8.5 Jonathan Watts is a member of The Second Scotts Atlantic Distributors LLP. On 6 May 2008 the company passed a members' determination to put the company into members' voluntary liquidation and appoint a liquidator, and the company remains in liquidation.
- 8.6 Jonathan Watts is a member of The Third Scotts Atlantic Distributors LLP. On 6 May 2008 the company passed a members' determination to put the company into members' voluntary liquidation and appoint a liquidator, and the company remains in liquidation.
- 8.7 Max Royde was appointed as a director of Hotel Buyer Limited on 10 October 2000 and resigned on 10 May 2005. On 31 May 2005, the company passed an extraordinary resolution to put the company into members' voluntary liquidation. The company was dissolved on 26 January 2008.
- 8.8 Save as disclosed in this document, there are no potential conflicts of interest between any duties to the Company of the Directors or the Proposed Directors and their private interests or their other duties.
- 8.9 Save as disclosed in this document, no Director nor Proposed Director has or has had any interest in any transaction which is or was significant in relation to the business of the Company and which was effected during the current or immediately preceding financial period or which was effected during an earlier financial period and remains outstanding or unperformed.

## **9. Directors' service contracts and remuneration**

- 9.1 Save as disclosed below, there are no service agreement or letters of appointment, existing or proposed between any Director or Proposed Director and the Company that have been entered into or varied within six months prior to the date of this document. There are no existing or proposed service agreements or letters of appointment between the Company and any of the Directors or the Proposed Directors which do not expire or are not determinable by the Company without payment of compensation within 12 months immediately preceding the date of this document.

### ***Existing Directors***

#### ***Niall Stirling***

On 5 December 2012, Niall entered into a service agreement with the Company pursuant to which his employment with the Company as Chief Financial Officer was confirmed with effect from 3 January 2013. The agreement can be terminated by either party giving to the other not less than six months' notice in writing (subsequently reduced to 3 months' notice on 21 April 2015). The agreement contains provisions for early termination, inter alia, in the event that he breaches any material term of the agreement. The basic salary payable to Niall is £175,000 per annum. This is to be reviewed on 1st January each year without any obligation to increase the same (no such increase has taken place). In addition, Niall may be eligible to participate in bonus schemes from time to time, such participation being at the sole discretion of the employer. He is also entitled to basic healthcare for himself and his

immediate family and death in service cover at the level of four times basic salary. He was also entitled to the grant of an option over 500,000 Ordinary Shares which has subsequently lapsed. The Company also agreed to match contributions made by Niall towards a SIPP up to 5 per cent. of his basic salary rising to 7.5 per cent. from 1 January 2015. The service agreement contains restrictive covenants for a period of 6 months following the termination of his employment. On Admission, this service agreement will be terminated and Niall will cease to be an employee, secretary and director of the Company.

Prior to, and conditional upon, Admission, the Company and Niall will enter into a settlement agreement in respect of the termination of Niall's employment with the Group on Admission. Pursuant to the terms of the agreement the Company will pay to Niall his salary accrued up to the termination date, continue to provide his contractual benefits up to the termination date, make a payment to Niall of £43,750 in lieu of three months notice, make a payment to Niall of £43,750 in respect of his agreed 2015 bonus and make a payment in lieu of untaken holiday accrued up to the termination date subject to deductions of income tax and national insurance contributions in the normal way. In addition, Niall is entitled to a compensation sum of £30,000 subject to the warranties given by him and subject to his acceptance of and compliance with the terms of the agreement.

#### *Bill Dobbie*

On 25 November 2013, Bill entered into a non-executive letter of appointment with the Company pursuant to which his appointment as a non-executive director was confirmed. The appointment was for an initial fixed period of 12 months commencing on 1 December 2013 and terminating on 30 November 2014 (the "Expiry Date") without the need for notice although either party may terminate the appointment at any time prior to the Expiry Date on giving three months' prior written notice. Bill is required in accordance with the provisions of the Articles to seek re-election by the Shareholders at the appropriate times. The fee payable to Bill is £35,000 gross per annum payable monthly in arrears. Bill is also entitled to an additional fee of £5,000 per annum in the event that he is appointed as chair of any of the Company's committees. The Company is entitled to terminate Bill's appointment with immediate effect in certain circumstances with no liability to make any further payment to him other than in respect of amounts accrued to him prior to termination. In December 2014, Bill's appointment as a non-executive director was extended for a further period of 12 months from 1 December 2014 and it was agreed that his remuneration in respect of his extended term would be reduced to £12,500 per annum. This was increased to £30,000 per annum from 1 July 2015. On 1 December 2015, Bill's appointment as a non-executive director was extended for a further period of 12 months from such date. On Admission, these letters of appointment will terminate and will be replaced by the letter of appointment detailed below.

#### *Max Royde*

On 3 February 2015, Max entered into a non-executive letter of appointment with the Company pursuant to which his appointment as a non-executive director and Chairman was confirmed for an initial term of one year with effect from 2 February 2015. His appointment terminates on 1 February 2016 without notice but may be terminated earlier by either party giving to the other one month's prior written notice. Max is required in accordance with the provisions of the Articles to seek re-election by the Shareholders at the next annual general meeting of the Company. The fee payable to Max is £30,000 gross per annum payable monthly in arrears. The Company is entitled to terminate Max's appointment with immediate effect in certain circumstances with no liability to make any further payment to him other than in respect of amounts accrued to him prior to termination. On Admission, this letter of appointment will be terminated and Max will cease to be a director of the Company.

#### *Directors on Admission*

##### *Andy Ross*

Andy has entered into a letter of appointment with the Company dated 31 December 2015 setting out the terms of his appointment as Chief Executive Officer. The letter of appointment is conditional on Admission. Further details of the terms on which Andy will be engaged by the Enlarged Group are



set out in the description of the agreement between MXC Advisory Limited and Selection Services Limited at paragraph 12.2(a) of this Part VII.

On or immediately prior to Admission, Andy will enter into a service agreement with Selection Services Limited pursuant to which his employment as Chief Executive Officer will be confirmed conditional upon Admission and completion of the Acquisition. The agreement can be terminated by either party giving to the other not less than six months' notice in writing. The agreement contains provisions for early termination, *inter alia*, in the event that he breaches any material term of the agreement. The basic salary payable to Andy is £30,000 per annum. This is to be reviewed on 1st January each year without any obligation to increase the same. Selection Services Limited operates an auto-enrolment pension scheme with the level of employee and employer contributions being set out in the service agreement. The service agreement contains restrictive covenants for a period of 12 months following the termination of his employment.

#### *Julian Phipps*

Julian has entered into a letter of appointment with the Company dated 31 December 2015 setting out the terms of his appointment as Chief Financial Officer. The letter of appointment is conditional on Admission.

On or immediately prior to Admission, Julian will enter into a service agreement with Selection Services Limited pursuant to which his employment as Chief Financial Officer will be confirmed conditional upon Admission and completion of the Acquisition. The agreement can be terminated by either party giving to the other not less than six months' notice in writing. The agreement contains provisions for early termination, *inter alia*, in the event that he breaches any material term of the agreement. The basic salary payable to Julian is £140,000 per annum. This is to be reviewed on 1st January each year without any obligation to increase the same. In addition, Julian may be eligible to participate in bonus schemes from time to time, such participation being at the sole discretion of the employer. He is also entitled to basic healthcare for himself and his immediate family, death in service cover at the level of four times basic salary and a car allowance of £7,000 per annum, payable monthly. Selection Services Limited operates an auto-enrolment pension scheme with the level of employee and employer contributions being set out in the service agreement. The service agreement contains restrictive covenants for a period of 12 months following the termination of his employment.

#### *Jonathan Watts*

On 31 December 2015, Jonathan entered into a non-executive letter of appointment with the Company pursuant to which his appointment as a non-executive director and Chairman was confirmed conditional upon Admission and completion of the Acquisition. Subject to the condition being satisfied, his appointment is for an initial term of three years terminating on the third anniversary of the start date without the need for notice but may be terminated earlier by either party giving to the other three months' prior written notice. Jonathan is required in accordance with the provisions of the Articles to seek re-election by the Shareholders at the next annual general meeting of the Company. The fee payable to Jonathan is £50,000 gross per annum payable monthly in arrears. Jonathan is entitled to participate in the Company's share option scheme and will be granted options to a value of £200,000 following his appointment as a director. The Company is entitled to terminate Jonathan's appointment with immediate effect in certain circumstances with no liability to make any further payment to him other than in respect of amounts accrued to him prior to termination.

#### *Bill Dobbie*

On 31 December 2015, Bill entered into a non-executive letter of appointment with the Company pursuant to which it was confirmed that he would step down as non-executive Chairman but continue as a non-executive director conditional upon Admission and completion of the Acquisition. Subject to the condition being satisfied, his appointment is for an initial term of three years terminating on the third anniversary of the start date without the need for notice but may be terminated earlier by either party giving to the other three months' prior written notice. Bill is required in accordance with the

provisions of the Articles to seek re-election by rotation at the next annual general meeting of the Company. The fee payable to Bill is £30,000 gross per annum payable monthly in arrears. The Company is entitled to terminate Bill's appointment with immediate effect in certain circumstances with no liability to make any further payment to him other than in respect of amounts accrued to him prior to termination. This letter of appointment replaces and supersedes his previous letters of appointment with the Company.

*Katherine Roe*

On 22 December 2015, Katherine entered into a non-executive letter of appointment with the Company pursuant to which her appointment as a non-executive director was confirmed conditional upon Admission and completion of the Acquisition. Subject to the condition being satisfied, her appointment is for an initial term of three years terminating on the third anniversary of the start date without the need for notice but may be terminated earlier by either party giving to the other three months' prior written notice. Katherine is required in accordance with the provisions of the Articles to seek re-election by rotation at the next annual general meeting of the Company. The fee payable to Katherine is £35,000 per annum. The Company is entitled to terminate Katherine's appointment with immediate effect in certain circumstances with no liability to make any further payment to her other than in respect of amounts accrued to her prior to termination.

- 9.2 The amounts payable to the Directors and the Proposed Directors by the Company under the arrangements in force at the date of this document in respect of the financial year ending 31 December 2016 are estimated to be £527,000 excluding benefits and any VAT payable thereon.

**10. Employees**

- 10.1 Save for the Directors, as at the date of this document, the Group has one employee.
- 10.2 On Admission, the Enlarged Group will employ approximately 370 staff in the UK excluding the Directors and Proposed Directors.

**11. Principal establishments**

- 11.1 As at the date of this document, the Company's principal establishment is at 23 Manor Place, Edinburgh, Scotland EH3 7DX.
- 11.2 Following Admission, the Enlarged Group will have its principal establishment at Interchange Building, Wellesley Road, Croydon.

**12. Material contracts**

- 12.1 The following contracts, not being contracts entered into in the ordinary course of business, which have been entered into by the Company and its subsidiaries (i) within the two years immediately preceding the date of this document and are, or may be material; or (ii) which contains any provision under which the Company or any of its subsidiaries has any obligation or entitlement which is material to the Company or the subsidiary as at the date of this document:
- (a) On 31 December 2015, the Company, the Directors, the Proposed Directors and N+1 Singer entered into the Placing Agreement. Under the terms of the Placing Agreement, the Company appointed N+1 Singer as its agent to procure subscribers for the Placing Shares at the Placing Price and N+1 Singer agreed to use its reasonable endeavours to procure such subscribers. The Placing has not been underwritten. The obligations N+1 Singer are conditional, *inter alia*, on Admission occurring on or before 21 January 2016 or such later date (being no later than 5 February 2016) as the Company and N+1 Singer may agree. The Company shall pay to N+1 Singer an aggregate work/corporate finance/commission fee of £635,000 (plus VAT and expenses). The Placing Agreement contains certain warranties given by the Company, the Directors and the Proposed Directors in favour of N+1 Singer (including warranties relating to the accuracy of the information in this document and the Company's incorporation and

capacity). The liability of the Directors and the Proposed Directors is limited. The Placing Agreement also contains an indemnity given by the Company in favour of N+1 Singer.

- (b) A sale and purchase agreement dated 31 December 2015, between the Vendors (1) and the Company (2) pursuant to which, conditional upon certain matters being satisfied including the completion of the Placing, save for the receipt of the placing proceeds, the Company has agreed to acquire the entire issued share capital of Selection for a consideration of £7.9 million to be settled part in cash and part by the allotment and issue of the Consideration Shares.

The Company will also, on Completion, repay the indebtedness on behalf of Selection, being a payment of £26.9 million.

The agreement contains warranties given by certain of the Vendors forming part of the management team of Selection (the "Warrantors") to the Company. The Warrantors total aggregate liability under the warranties and in respect of any other claims relating to the agreement including the tax deed shall not in any events exceed £1.15 million, being the total value of the consideration to be received by the Warrantors. The agreement also contains restrictive covenants given by Grahame Harrington and Mark Woodall, a tax indemnity in favour of the Company, confidentiality provisions and is governed by English law.

- (c) Irrevocable undertakings dated 31 December 2015, 30 December 2015 and 23 December 2015 received from Bill Dobbie, Kestrel Partners LLP and Richard Griffiths respectively and addressed to the Company and N+1 Singer pursuant to which each of Bill Dobbie, Kestrel Partners LLP and Richard Griffiths undertakes to vote in favour of the Resolutions to be proposed at the General Meeting. In addition, they each undertake to do all such things that might reasonably be requested by the Company or N+1 Singer (or procure that such things are done) to enable the undertaking to be carried out.
- (d) A lock-in agreement dated 31 December 2015 entered into between, the Company (1), N+1 Singer (2) and Bill Dobbie (3) pursuant to which Bill Dobbie has agreed with the Company and N+1 Singer, conditional upon Admission, not to dispose of Ordinary Shares held by him for a period of 12 months from the date of Admission except in certain limited circumstances permitted by the AIM Rules. The deeds also contain certain orderly market provisions which apply for a further 12 month period after the expiry of the lock in period.

Lock-in agreements to be entered into on or immediately prior to Admission between, the Company (1), N+1 Singer (2) and Joseph Rowbotham, Philip Offord and Paul Clark (3) pursuant to which Joseph Rowbotham, Philip Offord and Paul Clark will agree with the Company and N+1 Singer, conditional upon Admission, not to dispose of Ordinary Shares held by them for a period of 12 months from the date of Admission except in certain limited circumstances permitted by the AIM Rules. The deeds also contain certain orderly market provisions which apply for a further 12 month period after the expiry of the lock in period.

- (e) A warrant instrument dated 31 December 2015 pursuant to which, conditional upon, inter alia, completion of the Acquisition, MXC Capital has been granted warrants over 5 per cent. of the fully diluted Enlarged Issued Share Capital (the "Initial Warrants"). The instrument creating the warrants contains a further provision to the effect that the number of warrants created pursuant to the terms of the instrument shall at all times be equal to 5 per cent. of the fully diluted issued share capital of the Company and therefore each time that the Company allots and issues new Ordinary Shares it shall be deemed to have created such number of additional warrants which in number are equal to 5 per cent. of the number of new Ordinary Shares allotted and issued (the "Additional Warrants"). This figure of 5 per cent. will be reduced pro rata by any allotment and issue of new Ordinary Shares pursuant to any partial exercise of warrants during a 7 year exercise period (including more than one partial exercise of warrants), for example if the warrant holder exercises 50 per cent. of the warrants then the figure of 5 per cent. would be reduced to 2.5 per cent. This evergreen element is subject to MXC maintaining a minimum 7 per cent. shareholding in the Company. The Initial Warrants are exercisable at the Placing

Price and the Additional Warrants are exercisable at the price at which the new Ordinary Shares are allotted which triggers the creation of the Additional Warrants, subject to certain exceptions. All warrants shall be exercisable over a 7 year period and in the case of warrants granted between the fifth anniversary of the date of the instrument and the seventh anniversary of the date of the instrument over a 6 year period from the date of grant. The Initial Warrants are exercisable after the third anniversary of the date of grant (the "First Vesting Date") if a 40 per cent. increase on the Placing Price (the "Share Price Condition") has been met on or before such date. If the Share Price Condition has not been met on or before the First Vesting Date then the share price performance of the shares in the Company shall be measured across a further two year period commencing on the day following the First Vesting Date and if the Share Price Condition is met at any time during the additional two year period then the Initial Warrants shall be exercisable from the date the condition is satisfied until the seventh anniversary of the date of the instrument. Similar provisions also apply in respect of the exercise of the Additional Warrants.

- (f) An agreement dated 24 December 2015 between the Company and MXC Capital Markets LLP ("MXCM") pursuant to which corporate finance consultancy services will be provided to the Company. In addition, MXCM confirms MXC's interest in subscribing for up to 25 per cent. of the issued share capital of the Company as enlarged following completion of the Acquisition and the Placing. In consideration of MXCM's services, the Company has agreed to pay an annual retainer fee of £30,000 (plus VAT) per annum. In addition, the Company has agreed to pay MXCM advisory fees equal to 2.5 per cent. of the enterprise value of any corporate transactions concluded by the Company, insofar as the transaction has been introduced by MXCM, payable immediately on completion of the transaction or capital raising to which they relate, unless agreed otherwise. Should other advisers be engaged by the Company to conclude any corporate transactions, any fees payable under the previous sentence will be reduced by an amount payable to such advisers (with the exception of any commission charged by any brokers the Company may engage). For the avoidance of doubt, this only includes document fees payable to the Company's brokers to support a transaction. In relation to the acquisition of Selection, the fee payable to MXCM is £450,000 (plus VAT) and no other advisers' fees will be deducted from this fee. The agreement also stipulates that MXCM has the right to nominate at MXCM's discretion any one person to be appointed to the board of directors and that MXCM will continue to have this right for as long as it provides financial advisory services to, and/or holds shares in excess of 10 per cent. of the issued share capital in, the Company.
- (g) An engagement letter dated 9 November 2015 between N+1 Singer and the Company pursuant to which N+1 Singer has agreed to provide certain services to the Company as its nominated adviser and broker in relation to the Acquisition, the Placing and Admission (together the "Transaction"). The Company has agreed to pay N+1 Singer: (i) a work fee (the "Work Fee") of £10,000 per week to accrue weekly in advance commencing on the date of the letter of engagement until the Transaction completes or N+1 Singer receives written notice from the Company to suspend work on the Transaction or the letter of engagement terminates, up to a maximum of £50,000; and (ii) immediately on Admission an aggregate work/corporate finance/commission fee of £635,000 (plus VAT) less the amount of any work fee invoiced and paid under (i). A fee will become payable by the Company to N+1 Singer if for a period of 12 months after the engagement comes to an end by termination or otherwise the Company completes a similar transaction. The Company has also agreed to pay the reasonable and properly incurred expenses of lawyers acting on N+1 Singer's behalf in connection with the Transaction. The engagement is for an initial period of 6 months, after which the Company or N+1 Singer may terminate the appointment on 10 business days' written notice. The engagement letter includes N+1 Singer's standard terms and conditions.
- (h) An agreement dated 9 November 2015 between the Company and PricewaterhouseCoopers LLP ("PwC") pursuant to which PwC agreed to provide certain services relating to the establishment of the New Employee Share Scheme. In consideration of PwC's services, the Company has agreed to pay a fee of £35,000 (plus VAT).

- (i) On 11 May 2015, the Company entered into a nominated adviser and broker agreement with N+1 Singer pursuant to which the Company appointed N+1 Singer to act as its nominated adviser and broker for the purposes of the AIM Rules. The Company agreed to pay N+1 Singer an annual retainer of £60,000 commencing on the date of the letter (such fee being payable quarterly in advance on 1st January, 1st April, 1st July and 1st October) together with reasonable out-of-pocket expenses which are incurred in respect of such services. The letter sets out the ongoing responsibilities of both parties and contains various undertakings, indemnities and warranties given by the Company to N+1 Singer. The Company or N+1 Singer may terminate the agreement at any time by giving to the other not less than three months' prior written notice, such notice not to be given until a date 12 months following the date of the agreement.
- (j) An agreement dated 8 May 2015 between the Company and MXC Capital Advisory LLP (now called MXC Capital Markets LLP) ("MXCA") pursuant to which corporate finance consultancy services will be provided to the Company. In consideration of MXCA's services, the Company has agreed to pay an annual retainer of £30,000 (plus VAT) per annum. In addition, the Company has agreed to pay MXCA advisory fees equal to 2.5 per cent. of the enterprise value of any corporate transactions concluded by the Company, payable immediately on completion of the transaction or capital raising to which they relate, unless agreed otherwise. Should other advisers be engaged by the Company to conclude any corporate transactions, any fees payable under the previous sentence will be reduced by an amount payable to such advisers (with the exception of any commission charged by any brokers the Company may engage). The agreement may be terminated by either party at any time by giving to the other party three months' written notice. This agreement is replaced and superseded by the agreement detailed in paragraph 12(f) above.

*Sale of the traditional dating business*

- (k) On 5 December 2014, a framework agreement was entered into between the Company, Grendall Investments Limited, Tradax IP Licensing Limited ("**Tradax**"), Together Networks Limited ("**TNL**") and Together Networks Holdings Limited ("**TNHL**") which, among other things, governed the conduct of the parties in the period between exchange and completion of the sale of the Group's traditional dating business (which comprised, among other things, a portfolio of trading brands based around the following core group of sites: Cupid, UniformDating and LoveBeginsAt, including their supporting sites and international equivalents) (the "**Traditional Dating Business**") and, in particular, to co-ordinate the execution of the second deed of amendment to the APA (summarised at paragraph 12.1(t) below) and the BPA (summarised at paragraph 12.1(l) below). The obligations of the parties were extinguished upon completion of the sale of the Traditional Dating Business which took place on 24 December 2014.
- (l) A business purchase agreement dated 5 December 2014 between the Company and Tradax, TNL and TNHL (together the "**Buyers**") in respect of the sale of the Traditional Dating Business and associated assets (the "**BPA**"). The disposal was conditional upon the passing of a resolution of the Shareholders of Company to approve a fundamental change of the business of the Company. The consideration payable under the agreement was an aggregate amount of £3,000,000. Of this consideration, £2.25 million was paid at completion in respect of the sale of all of the traditional dating assets (other than the French assets) and the sum of £750,000 was to be paid on completion of the French business purchase agreement (see paragraph 12.1(m) below). The agreement contains warranties and indemnities given by the Company to the Buyers. The Company's total aggregate liability for warranty and tax claims was limited (all warranty and tax claims were capped at £1.5 million). The period in which a warranty claim (excluding tax warranty claims) can be brought by the Buyers expired on 31 December 2015. The agreement also contains restrictive covenants given by the Company, confidentiality provisions and is governed by English law. The disposal was completed on 24 December 2014.

- (m) A business purchase agreement dated 4 February 2015 between Assistance Genie Logiciel SAS (“AGL”) and Tradax pursuant to which AGL agreed to sell the traditional dating business and assets situated in France (the “**French Business**”). The consideration for the sale of the French Business amounted to €702,964.39 (which, at the effective date, corresponds to £530,000) exclusive of VAT or other taxes which formed part of the £750,000 which had been retained from the overall disposal proceeds as mentioned in paragraph 12.1(l) above. The agreement contained limited warranties and an indemnity from AGL in favour of Tradax and is governed by French law. The French Business was transferred to Tradax on 4 February 2015.
- (n) A share purchase agreement dated 24 December 2014 between the Company and TNHL in respect of the sale by the Company of the entire issued share capital of NSI Holdings Limited (“NSI”). The UniformDating business and assets were held in NSI. The consideration for the sale of NSI formed part of the overall consideration for the sale of the Traditional Dating Business.
- (o) A sale of corporate rights agreement dated 24 December 2014 (as amended by a supplemental agreement dated 24 December 2014) between the Company and TNL in respect of the sale of the entire authorised paid up capital of Easydate Ukraine. The consideration for the sale of Easydate Ukraine formed part of the overall consideration for the sale of the Traditional Dating Business.
- (p) A sale of corporate rights agreement dated 24 December 2014 (as amended by a supplemental agreement dated 24 December 2014) between the Company and TNL in respect of the sale of the entire authorised paid up capital of Easydate Denepr. The consideration for the sale of Easydate Denepr formed part of the overall consideration for the sale of the Traditional Dating Business.
- (q) A transitional services and mitigation agreement dated 24 December 2014 between the Company and TNL setting out the terms on which the Company and TNL have agreed to provide each other with certain transitional services in relation to the operation of the traditional dating business following completion of the sale. Service charges are payable in respect of each service provided from the recipient to the provider of those services. The agreement is governed by English law. The service period for the delivery of transactional services by the Company under this Agreement expired on 31 December 2015.
- (r) Various deeds of assignment were entered into between the Company, NSI, Cupid.com, Inc. and Castle Digital Services, Inc. and Tradax in respect of the transfer of intellectual property rights associated with the Traditional Dating Business.

*Acquisition of Tangle Labs:*

- (s) A share purchase agreement dated 27 June 2014 between the Company and a number of selling shareholders in relation to the acquisition by the Company of the entire issued share capital of Tangle Labs Limited. The consideration paid was £50,000. The founding shareholders gave warranties in favour of the Company on standard terms. The assets relating to the “Tangle” mobile dating application were subsequently sold to Tradax IP Licensing Limited pursuant to the sale of the Traditional Dating Business.

*Sale of the casual dating business:*

- (t) An asset sale agreement dated 15 July 2013 between the Company and Grendall Investments Limited (the “**Purchaser**”) (the “**APA**”) in respect of the sale of the casual dating business of the Group (which included domain names, trade marks and other assets associated with the “FLIRT” and “BeNaughty” brands (the “**Casual Dating Business**”). The initial consideration noted in the agreement was £3,310,000 plus deferred consideration of £17,780,000 (this was understated by £500,000; this error was rectified in subsequent amendment agreements) and finally the buyback consideration of £9,061,774 (which would have otherwise been paid by the Company to Huntress Nominees Ltd in respect of the buyback of 12,379,472 Ordinary Shares as an on market purchase dated 15 July 2013). The agreement contains warranties and

indemnities given by the Company to the Purchaser. The Company's total aggregate liability under the warranties was limited. Given the large component of deferred consideration, the Company took security in respect of the payment of the deferred consideration in the form of debentures over the assets of certain companies in the Purchaser's group and shares of the Purchaser and certain of its subsidiaries (which have now been released following payment of the final instalment of deferred consideration for the sale of the Casual Dating Business on or around 15 December 2015). In addition, as further security for payment of the deferred consideration the Company retained title to the domain names and trade marks comprising the Casual Dating Business and the use of these assets was licenced to the Purchaser's group until such time as at least 50 per cent. of the deferred consideration had been paid and an escrow account was established which the Purchaser was to ensure remained at such a level which could cover one month's payment of the deferred consideration. The Company and the Purchaser instructed that the funds standing to the credit of the escrow account be released to the Purchaser on 18 December 2015 following payment of the final instalment of the deferred consideration on 15 December 2015. The agreement also contains restrictive covenants given by the Company, confidentiality provisions and is governed by English law. The following amendments have been made to this agreement:

- On 5 December 2014, the Company and the Purchaser entered into a first deed of amendment of the APA to amend, among other things, the amount of the deferred consideration noted in the original APA as set out above, re-allocating the aggregate consideration and updating the schedule of assets.
  - On 5 December 2014, the Company and the Purchaser entered into a second deed of amendment of the APA to, among other things, reduce the overall amount of the outstanding deferred consideration under the APA to £6,490,400 and bring forward the final payment date from the deferred consideration from 15 November 2016 to 15 December 2015 and to amend the timing of the transfer of the domain names and trademarks to the date on which the final payment of deferred consideration was paid (being 15 December 2015). It also provided that the Company and the Purchaser would share the costs of any intellectual property infringement claims equally in the period prior to payment of the final instalment of deferred consideration and following payment of the final instalment of the deferred consideration the Company's liability for sharing costs would be capped at £250,000. Pursuant to the third deed of amendment to the APA (see below), both the Company and the Purchaser confirmed that there were no known IP infringement claims outstanding as at 18 December 2015.
  - On 18 December 2015 (following the date of the payment of the last instalment of deferred consideration due in respect of the Casual Dating Business), the Company and the Purchaser entered into a third deed of amendment of the APA to, among other things: (i) confirm release of the balance of funds standing to the credit of the escrow account to the Purchaser; and (ii) confirm that there are no outstanding IP infringement claims as at the date of this agreement. In addition, the Company granted the Purchaser (and each member of the Purchaser's group) an indemnity in respect of all losses, liabilities and costs incurred by either Yarra Digital Ltd or EZD Digital Ltd (following transfer of those companies to the Purchaser's group) in relation to defending a claim which has been brought against several members of the group for breach of a lease agreement in relation to a property in Cyprus. The Company's liability under this indemnity has been capped at £100,000.
- (u) A transitional services agreement dated 15 July 2013 between the Company and the Purchaser (as defined above) (the "TSA") for the provision of certain transitional services in relation to the transfer of the casual dating business pursuant to the APA (as defined above). There are no services being provided by the Company under the TSA (save that the Company continues to remit funds that it receives into its account in respect of the Casual Dating Business). On 18 December 2015, the Company and the Purchaser entered into a deed of termination in relation to the TSA.

- (v) A share purchase agreement dated 15 July 2013 entered into between Frindr Limited (“**Frindr**”) and the Purchaser (as defined above) in relation to the sale of the whole of the issued share capital of Yarra Digital Limited (a company incorporated in Cyprus) (which held certain domain names and trade marks relating to the Casual Dating Business) (“**Yarra SPA**”). The consideration comprised initial consideration of £1,972,235 and deferred consideration of £9,203,765. The initial consideration was paid at completion and the deferred consideration was to be paid in monthly instalments from the second calendar month after completion until the fortieth calendar month after completion (subject to a potential adjustment). The registered title to the shares was not transferred at completion but would be transferred at a date to be agreed (and pursuant to the second deed of amendment to the Yarra SPA (summarised below) the date on which the shares would be transferred was set as the day following payment of the final instalment of the deferred consideration due in respect of the sale of the Casual Dating Business). At completion Yarra entered into a trade mark and domain name licence agreement (subsequently amended) with the relevant purchaser group company to operate the domain names and trademarks registered in the name of Yarra. Certain warranties were given by Frindr to the Purchaser under the Yarra SPA (which were to be repeated when registered title to the shares were actually transferred to the Purchaser). These warranties were subject to certain limitations. The Yarra SPA also contains a completion accounts mechanism pursuant to which, Frindr would repay such amounts of consideration to the purchaser to equal the amount by which the net asset value of Yarra Digital Ltd is below zero. The following amendments have been made to this agreement:
- On 5 December 2014, Frindr and the Purchaser amended the Yarra SPA to reflect a reallocation of the consideration due across all the sale agreements mentioned in this paragraph 12.1(t) and paragraphs 12.1(v) and 12.1(w). The consideration was adjusted so that the initial consideration became £2,931,755 and the deferred consideration was increased to £15,192,804.
  - On 24 December 2014, Frindr and the Purchaser entered into a second deed of amendment to the Yarra SPA to, among other things, deal with the reduction in the overall consideration payable under Yarra SPA and the other sale documents. The deferred consideration under the Yarra SPA was reduced to £12,036,049. The period over which the deferred consideration would be paid was shortened so that the final payment would be made 29 months after the initial completion date of 15 July 2013 (being 15 December 2015) (as opposed to the 40th month after the initial completion date (November 2016)). The timing of the transfer of the shares in Yarra Limited was also brought forward to the first business day following the date on which all of the deferred consideration due under the APA, Yarra SPA and EZD SPA (as defined below) had been paid in full and the total aggregate amount of liability for claims under the Yarra SPA was amended.
  - On 18 December 2015, Frindr and the Purchaser entered into a third deed of amendment to the Yarra SPA to, among other things, make certain clarifications upon final completion of the transfer of the registered title to the shares in Yarra Digital Limited following payment of the final instalment of the deferred consideration due in respect of the sale of the Casual Dating Business (which was paid on or around 15 December 2015).
- (w) A share purchase agreement dated 15 July 2013 entered into between Global Digital Corporation Limited (“**GDC**”) and the Purchaser (as defined above) in relation to the sale of the whole of the issued share capital of EZD Digital Limited (a company incorporated in Cyprus) (which held certain domain names and trade marks relating to the Casual Dating Business) (“**EZD SPA**”). The consideration comprised initial consideration of £217,412 and deferred consideration of £1,014,588. The initial consideration was paid at completion and the deferred consideration was to be paid in monthly instalments from the second calendar month after completion until the fortieth calendar month after completion (subject to a potential



adjustment). The registered title to the shares was not transferred at completion but would be transferred at a date to be agreed (which pursuant to the second deed of amendment to the EZD SPA (summarised below) would be transferred on the day following payment of the final instalment of the deferred consideration due in respect of the sale of the Casual Dating Business). At completion EZD Digital Limited entered into a trade mark and domain name licence agreement (subsequently amended) with to the relevant purchaser group company to operate the domain names and trademarks registered in the name of EZD Digital Limited. Certain warranties were given by GDC to the Purchaser under the EZD SPA (which were to be repeated when registered title to the shares were actually transferred to the Purchaser). These warranties were subject to certain limitations. The EZD SPA also contains a completion accounts mechanism pursuant to which, Frindr would repay such amounts of consideration to the purchaser to equal the amount by which the net asset value of Yarra Digital Ltd is below zero. The following amendments have been made to this agreement:

- On 5 December 2014, GDC and the Purchaser amended this agreement to reflect a reallocation of the consideration due across all the sale agreements mentioned in this paragraph 12.1(t) and paragraphs 12.1(v) and 12.1(w). The consideration was adjusted so that the initial consideration became £602,511 and the deferred consideration was increased to £3,122,289.
  - On 24 December 2014, GDC and the Purchaser entered into a second deed of amendment to deal with the reduction in the overall consideration payable under EZD SPA and the other sale documents. The deferred consideration was reduced to £2,473,551. The period over which the deferred consideration would be paid was shortened so that the final payment would be made 29 months after the initial completion date of 15 July 2013 (15 December 2015) (as opposed to the 40th month after the initial completion date (November 2016)). The timing of the transfer of the shares in EZD Digital Limited was also brought forward to the first business day following the date on which all of the deferred consideration due under the APA, Yarra SPA and EZD SPA had been paid in full and the total aggregate amount of liability for claims under the EZD SPA was amended.
- (x) On 18 December 2015, GDC and the Purchaser entered into a third deed of amendment to the EZD SPA to, among other things, make certain clarifications upon final completion of the transfer of the registered title to the shares in EZD Digital Limited following payment of the final instalment of the deferred consideration due in respect of the sale of the Casual Dating Business (which was paid on or around 15 December 2015). On 15 July 2013, a number of exclusive trademark and domain name licenses and assignments were entered into between the Company and certain subsidiaries of the Purchaser (as amended by a first deed of amendment dated 5 December 2014, a second deed of amendment dated 24 December 2014 and a third deed of amendment dated 18 December 2015), and Yarra Digital Limited and EZD Digital Limited and Kingsrock Holdings Limited (as amended by a first deed of amendment dated 24 December 2014 and a second deed of amendment dated 18 December 2015 (together being the “**IP Licences**”). The IP Licences ran from 15 July 2013 until the date on which the last instalment of the deferred consideration in respect of the sale of the Casual Dating Business was paid at which time all domain names and trade marks that were licenced under the IP Licences were to be assigned to the relevant licensee. The last instalment of the deferred consideration for the Casual Dating Business was paid on or around 15 December 2015. Further to this payment being made the licences have ceased and all trademarks and domain names which are the subject of the IP Licences have automatically assigned from the licensor to the licensee.

- 12.2 The following contracts, not being contracts entered into in the ordinary course of business, which have been entered into by Selection and its subsidiaries (i) within the two years immediately preceding the date of this document and are, or may be material; or (ii) which contains any provision

under which Selection or any of its subsidiaries has any obligation or entitlement which is material to Selection or the subsidiary as at the date of this document:

- (a) On or immediately prior to Admission, Selection Services Limited and MXC Advisory Limited will enter into a release agreement pursuant to which, conditional upon Admission and completion of the Acquisition, MXC Advisory Limited will agree for the duration of the agreement to permit Andy Ross to be employed by Selection Services Limited on the terms of the release agreement and, as summarised at paragraph 9.1 of this Part VII, his service agreement. Selection Services Limited has agreed to pay MXC Advisory Limited a fee of £174,000 per annum (exclusive of VAT) for such release. The agreement can be terminated by either party on six months' written notice.
- (b) A joint venture agreement dated 17 December 2011 and entered into between Anthony Galley, Global Data Vault, Inc. and Cloud Data Limited being the shareholders of Selection Services Intellectual Property Limited ("SSIPL"). The agreement regulates certain aspects of the affairs of SSIPL. Pursuant to this agreement and SSIPL's articles of association each shareholder has equal rights, including the right to appoint one director each. The agreement shall cease and terminate on the dissolution of SSIPL, when all shares in SSIPL are held by one shareholder or by agreement of all parties. The agreement is terminated without prejudice to the rights, obligations or liabilities of any party which shall have accrued or arisen prior to such cessation or termination.

### **13. Related party transactions**

- 13.1 Save as disclosed in paragraph 13 of Part I or referred to in the financial statements incorporated by reference in Part IV of this document, neither the Company nor any of its subsidiaries has entered into a transaction with a related party during the period between 1 January 2012 and the date of this document.
- 13.2 Save as disclosed in the financial statements in Part V of this document neither Selection nor any of its subsidiaries has entered into a transaction with a related party during the period between 1 July 2012 and the date of this document.

### **14. Takeover offers by third parties for the Company's shares**

There have been no takeover bids by third parties in respect of the Company's equity which have occurred during the last financial year or the current financial year.

### **15. Principal investments**

- 15.1 The principal investments made by the Company for each financial year for the period covered by the historical financial information up to the date of this document are as follows:
  - (a) On 1 February 2012, the Company signed an agreement to lease the assets of Friends Dating Ltd, known as Friends Reunited Dating, for a ten year period.
  - (b) On 23 July 2012, the Company acquired the entire issued share capital of a French dating company called Assistance Genie Logiciel for a total consideration of £3 million (EUR 3.7 million). The assets of this company were transferred to Tradax as part of the sale of Traditional Dating Business on 4 February 2015 (summarised at paragraph 12.1(m) of this Part VII).
  - (c) On 13 September 2012, the Company entered into a sale and purchase agreement for the acquisition of the entire issued share capital of NSI (Holdings) Limited, trading as Uniform Dating, for a consideration of £6,954,000 (including both initial consideration and deferred consideration). The shares in NSI (Holdings) Limited were transferred to TBHL (defined in paragraph 12.1(k) below) as part of the sale of the Traditional Dating Business (defined in paragraph 12.1(k) below) and was completed on 24 December 2014 (summarised at paragraphs 12.1(k) to 12.1(r) of this Part VII).

- (d) On 27 June 2014, the Company entered into a sale and purchase agreement for the acquisition of the entire issued share capital of Tangle Labs Limited for a consideration of £50,000. Further details are set out in paragraph 12.1(s) of this Part VII.
- 15.2 Save for the Acquisition, there are no principal investments of the Company that are in progress or on which the Company has made any firm commitment.

## **16. Intellectual property**

- 16.1 Save for an interest in a number of domain names including [www.castlestreetinvestments.com](http://www.castlestreetinvestments.com), the Group does not own or otherwise have any interest in any intellectual property rights and there are no intellectual property rights which are material to Group's business.
- 16.2 Save for the Q2C in house billing software for cloud services and an interest in a number of domain names including [www.selection.co.uk](http://www.selection.co.uk), Selection does not own or otherwise have any interest in any intellectual property rights and there are no intellectual property rights which are material to Selection's business.

## **17. Legal and arbitration proceedings**

- 17.1 Save as set out below, there are no governmental, legal or arbitration proceedings in which the Group is involved or of which the Group is aware, pending or threatened by or against the Group which may have or have had in the past twelve months preceding the date of this document a significant effect on the Group's financial position.

A claim has been brought by Gnaftis Secretarial Limited ("Gnaftis") (the landlord of a property previously leased by the Group) in relation to a lease for a property in Cyprus which was terminated by Hooya Digital Limited ("Hooya") (a Cyprus incorporated subsidiary of the Company). In September 2012, Hooya leased premises from Gnaftis. The lease was particularly onerous and a second, less onerous, lease was agreed in December 2012. The second lease was then terminated by Hooya in July 2013. Gnaftis initiated proceedings to a value of €1,000,000 against Hooya, the Company and other group companies in July 2013 for, amongst other things, illegal termination of the second lease and seeking a declaration that the first lease is still valid. After a delay, Gnaftis filed particulars of claim in January 2015. Hooya's Cyprus lawyers are currently seeking to strike out the claim against the Company and all other group companies as defendants except Hooya (on the basis that Hooya is the party to the lease and therefore is the only party against whom Gnaftis would have a valid claim). They are then intending to prepare and file Hooya's defence. Hooya's lawyers opine that there is no reasonable ground for Gnaftis to assert that the first lease remains valid however Gnaftis may be able to demonstrate that Hooya, in terminating the second lease early, has breached the second lease agreement. The amount of lost rent resulting from termination of the second lease is believed to be around Euro €400,000. An indemnity has also been provided in respect of this dispute capped at £100,000 in respect of the sale of the Casual Dating Business and further details of this indemnity are set out in paragraph 12.1(t) of this Part VII.

- 17.2 There are no governmental, legal or arbitration proceedings in which Selection is involved or of which Selection is aware, pending or threatened by or against Selection which may have or have had in the past twelve months preceding the date of this document a significant effect on Selection's financial position.

## **18. Taxation**

The comments in this section are intended as a general guide for UK resident Shareholders as to their tax position under United Kingdom law and HMRC practice as at the date of this document. Such law and practice (including, without limitation, rates of tax) is in principle subject to change at any time. The comments apply to Shareholders who are resident and domiciled for tax purposes in the UK (except in so far as express reference is made to the treatments of non-UK residents) who will hold Ordinary Shares as an investment and will be the absolute beneficial owners of them.

Non-UK resident and non-UK domiciled shareholders should consult their own tax advisers.

The position of Shareholders who are officers or employees of the Company is not considered in this section; such Shareholders may be subject to an alternative tax regime and should therefore seek tax advice specific to their individual circumstances. The position of UK resident but non-domiciled individuals claiming the remittance basis of taxation is not considered in this section.

The tax position of certain Shareholders who are subject to special rules, such as dealers in securities, broker-dealers, insurance companies and collective investment schemes is not considered in this section. Any shareholder who has any doubt as to his or her tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult a professional adviser without delay.

#### **18.1 *Taxation of chargeable gains***

For the purpose of UK tax on chargeable gains, the purchase of Ordinary Shares on a placing will be regarded as an acquisition of a new holding in the share capital of the Company. To the extent that a shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so acquired will, for the purpose of tax on chargeable gains, be treated as acquired on the date of the purchase becoming unconditional.

The amount paid for the Ordinary Shares will constitute the base cost of a Shareholder's holding.

A disposal of all or any of the Ordinary Shares may, depending on the circumstances of the relevant shareholder give rise to a liability to UK taxation on chargeable gains. Shareholders will normally be subject to UK taxation of chargeable gains, unless such holders are neither resident nor, in the case of individuals, ordinarily resident in the UK.

##### *Individuals*

Where an individual Shareholder disposes of Ordinary Shares at a gain, capital gains tax will be levied to the extent that the gain exceeds the annual exemption and after taking account of any capital losses available to the individual.

For individuals, capital gains tax will be charged at 18 per cent. where the individual's income and gains are less than the upper limit of the income tax basic rate band. To the extent that any chargeable gains, or part of any chargeable gain, aggregated with income arising in a tax year exceed the upper limit of the income tax basic rate band, capital gains tax will be charged at 28 per cent.

For trustees and personal representatives of deceased persons, capital gains tax on gains in excess of the current annual exempt amount will be charged at a flat rate of 28 per cent.

##### *Companies*

Where a Shareholder is within the charge to corporation tax, a disposal of Ordinary Shares may give rise to a chargeable gain (or allowable loss) for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemption or relief. Corporation tax is charged on chargeable gains at the rate applicable to that company. Indexation allowance may reduce the amount of chargeable gain that is subject to corporation tax but may not create or increase any allowable loss.

#### **18.2 *Taxation of dividends***

Under current United Kingdom legislation, no tax is required to be withheld from dividend payments by the Company.

##### *Individuals*

Shareholders (other than a company) receiving a dividend from the Company also receive a notional tax credit in respect of the dividend of an amount equal to one-ninth of the amount of the net dividend (which is 10 per cent. of the sum of the dividend and the tax credit). The liability to United Kingdom

income tax is calculated on the gross dividend income (i.e. the net dividend received plus the notional 10 per cent. tax credit).

Individual Shareholders whose income is within the basic rate tax band will be subject to dividend income tax at the rate of 10 per cent., so that (after taking into account the notional 10 per cent. credit) such Shareholders will have no further liability to income tax on that dividend income.

Individual Shareholders who are subject to the higher rate of income tax will be subject to dividend income tax at 32.5 per cent. After allowing for the 10 per cent. notional tax credit, a higher rate taxpayer suffers an effective rate of 25 per cent. on the net dividend received.

Individual Shareholders who are subject to the additional rate of income tax will be subject to dividend income tax at 37.5 per cent. After allowing for the 10 per cent. notional tax credit, an additional rate taxpayer suffers an effective rate of 30.56 per cent. on the net dividend received.

Dividends payable to trustees and personal representatives of deceased persons will be subject to dividend income tax at 37.5 per cent.

Shareholders who are not liable to income tax on the dividend income (or any part of it) may not claim payment of the tax credit (or any part of it).

In July 2015, the UK Government announced a proposal to reform the taxation of dividends for UK resident individuals. Under these proposals, the notional tax credit would be replaced by a dividend allowance from 6 April 2016. There would be no income tax payable in respect of the first £5,000 of cash dividend income received from all sources in the tax year (although such income would still counts towards the basic, higher and additional rate thresholds). For dividends received above £5,000, the cash dividend received would be taxable at 7.5 per cent, 32.5 per cent. and 38.1 per cent. for basic rate, higher rate and additional rate taxpayers, respectively. UK resident Shareholders should therefore seek the appropriate advice on how such proposed changes may impact their tax affairs.

#### *Companies*

Shareholders within the charge to UK corporation tax which are “small companies” (for the purposes of UK taxation of dividends) will not generally expect to be subject to tax on dividends from the Company. The exemption is only available if certain conditions are met (including an anti-avoidance condition).

Other Shareholders within the charge to UK corporation tax will not be subject to tax on dividends (including dividends from the Company) so long as the dividends fall within an exempt class and certain conditions are met. United Kingdom resident shareholders (including authorised unit trusts and open ended investment companies) and pension funds are not entitled to claim payment of the tax credit (or any part of it).

### **18.3 *Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)***

Stamp duty and SDRT do not apply to trades made on a recognised growth market, such as AIM.

### **18.4 *Summary***

The above is a summary of certain aspects of current law and practice in the UK. A Shareholder who is in any doubt as to his or her tax position and/or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

## **19. *The long term investment plan (“LTIP”)***

### **19.1 *Introduction***

The Company and Selection propose to adopt the LTIP, which will provide rewards to eligible employees by reference to the share price performance of the Company. The LTIP gives eligible employees the opportunity to acquire A Ordinary Shares in Selection (“A Shares”), the value of which

is linked to the share price growth of the Company following Admission. Provided the specified share price performance condition is met, LTIP participants will be able to realise the value of their A Shares in the form of either cash or new Ordinary Shares from the third anniversary of Admission.

A summary of the key terms of the LTIP is set out in paragraphs 19.2 to 19.7 below.

#### **19.2 Eligibility**

Only employees of companies within the Enlarged Group will be eligible to participate in the LTIP. It is currently intended that participation will be restricted to members of the management team and other key staff.

#### **19.3 LTIP Awards**

Participants in the LTIP will acquire A Shares in Selection. A Shares will give the holder an entitlement to share in a pool 5 per cent. of Shareholder Value (as defined below) created since the date of Admission (the "LTIP Pool"), subject to a share price performance condition having been achieved over a period of at least three years (see below).

For the purposes of the LTIP, "Shareholder Value" will be calculated as the growth in the market capitalisation of the Company, as at the date of sale of the A Shares, over the market capitalisation as at Admission at the Issue Price, as adjusted for the issue of new Ordinary Shares after Admission (but excluding new Ordinary Shares issued pursuant to the LTIP) and taking into account dividends and capital returns, if any.

#### **19.4 Vesting of LTIP Awards**

The payment of any amounts under the LTIP will depend on a share price performance condition having been achieved (the "Performance Condition"). The Performance Condition is that the average mid-market closing price of new Ordinary Shares over a period of five consecutive days during the period ending on the third anniversary of Admission (the "First Vesting Date") is at least equal to 140 per cent. of the Issue Price.

If the Performance Condition is achieved, participants will be able to realise the value of their A Shares following the First Vesting Date by exercising a put option to sell their A Shares to the Company (or another person nominated by the Company). The amount payable for the A Shares will be the specified percentage of the LTIP pool as at the date of exercise, and this will be either paid in cash or delivered in new Ordinary Shares having an equivalent value, at the discretion of the Company.

If the Performance Condition is not achieved before the First Vesting Date, it will be measured during a further two year period after the First Vesting Date. If the Performance Condition has been achieved at any time during that additional two year period, the put option will become exercisable on that date.

The put option will lapse, if not exercised, at the latest on the seventh anniversary of Admission (or 10 working days after the Company ceases to be in a closed period following that date). Following the lapse of the put option, the Company will be able to exercise a call option to acquire the A Shares, at either the price that would have been payable under the put option (if the Performance Condition has been achieved), or £1 in total (if the Performance Condition has not been achieved).

#### **19.5 Cessation of Employment**

If a participant ceases employment within the Enlarged Group due to certain 'good leaver' reasons, or for any reason (other than gross misconduct) after the First Vesting Date, any entitlements under the LTIP will remain unaffected. In other circumstances, the participant may be required to transfer any A Shares held for either no consideration or an amount equal to the income tax and National Insurance contributions paid on the acquisition of the A Shares.

## **19.6 *Change of Control***

If there is a change of control of the Company as a result of a general offer or a compromise or arrangement (other than as part of an internal reorganisation), or a change of control of Castle Street Investments, participants may be required to sell some or all of their A Shares. In such circumstances, the amount payable will be, if the Performance Condition has been satisfied, the amount that would have been payable on the exercise of the put option (either in cash or new Ordinary Shares). If the Performance Condition has not been satisfied at the date of the change of control, Participants will only be entitled to receive the nominal value of their A Shares.

## **19.7 *Other Terms***

The LTIP will be administered by the board of Castle Street Investments and the remuneration and nomination committee of the Company. It is intended that A Shares will be issued to employees as employee shareholder status shares in accordance with section 205A Employment Rights Act 1996.

No payment will be made by a participant on the issue of the A Shares.

New Ordinary Shares delivered in consideration for A Shares pursuant to the LTIP will be either newly issued or existing shares.

The above summarises the main features of the LTIP, but does not form part of the LTIP's terms and should not be taken as affecting the interpretation of the detailed terms and conditions of the LTIP.

## **20. *Mandatory bids, squeeze-out and sell out rules***

### **20.1 *Mandatory bid***

The Takeover Code applies to the Company and will continue to apply following Admission. Under the Takeover Code, if an acquisition of Ordinary Shares were to increase the aggregate holding of the acquirer and its concert parties to Ordinary Shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties, would be required (except with the consent of The Panel on Takeovers and Mergers) to make a cash offer for the outstanding Ordinary Shares in the Company at a price not less than the highest price paid for Ordinary Shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of Ordinary Shares by a person holding (together with its concert parties) Ordinary Shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

### **20.2 *Squeeze-out***

Under the Companies Act, if an offeror were to acquire 90 per cent. of the Ordinary Shares within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding shareholders telling them that it would compulsorily acquire their Ordinary Shares. Six weeks later, it would be entitled to execute a transfer of the outstanding Ordinary Shares to it and pay the consideration to the Company, which would hold it on trust for outstanding shareholders. The consideration offered to the shareholders whose Ordinary Shares are compulsorily acquired under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

### **20.3 *Sell-out***

The Companies Act would also give minority shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares in the Company and, at any time before the end of the period within which the offer could be accepted, the offeror held (or had agreed to acquire) not less than 90 per cent. of the Shares, any shareholder to which the offer related who had not accepted the offer could, by a written communication to the offeror, require it to acquire those Ordinary Shares.

The offeror would be required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on those rights of minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period under the offer. If a shareholder exercises his rights, the offeror is entitled and bound to acquire those Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

**21. No significant change**

21.1 There has been no material change in the trading or financial position of the Group since 30 June 2015, the date to which the last unaudited interim accounts were produced.

21.2 There has been no material change in the trading or financial position of Selection since 30 June 2015, the date to which the last audited accounts were produced, other than set out in this document.

**22. General**

22.1 The following fees have been paid by the Company to professional advisers in the 12 months preceding the date of this document (excluding those fees referred to in paragraph 12 of this document):

- (a) £17,588 to Bersay Associés in respect of legal fees in relation to the disposal of the traditional dating business;
- (b) £32,017 to Cabinet Rousseau in respect of accountancy fees in relation to the sale of the traditional dating business;
- (c) £175,364 to GP Bullhound LLP in respect of financial advisory fees in relation to the disposal of the traditional dating business;
- (d) £25,000 to Peel Hunt in respect of nominated adviser and broker fees;
- (e) £47,998 to KPMG LLP in respect of audit fees and tax advice;
- (f) £61,440 to Greenberg Traurig LLP in respect of legal fees in relation to IP matters in the USA; and
- (g) £272,512 to Pinsent Masons LLP in respect of legal fees in relation to the various disposals and other matters relating to the Company.

22.2 The total expenses payable by the Company in connection with the Placing, Admission and the Acquisition (including those fees and commissions referred to in paragraph 12 of this Part VII) are estimated to amount to approximately £1.6 million (excluding VAT). The net proceeds of the Placing will be £28.4 million.

22.3 N+1 Singer which is authorised by the Financial Conduct Authority, has given and not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear. N+1 Singer is acting exclusively for the Company in connection with the Placing and Admission and not for any other persons. N+1 Singer will not be responsible to any persons other than the Company for providing the protections afforded to customers of the Company or for advising any such person in connection with the Placing, Admission, this document or any matter, transaction or arrangement referred to in it.

22.4 N+1 Singer is registered in England and Wales under number OC364131 and its registered office is at One Bartholomew Lane, London EC2N 2AX.

22.5 The accounts of the Company, which are available on the Company's website at [www.castlestreetinvestments.com](http://www.castlestreetinvestments.com) contain an auditor's report by KPMG LLP within the meaning of section 495 of the Companies Act. The reports were not qualified within the meaning of section 539 of the Companies Act nor did they contain a statement in the form referred to in section 498(2) or



section 498(3) of the Companies Act. No information contained in this document has been audited by KPMG LLP.

- 22.6 KPMG LLP are currently the Company's auditors and were also the Company's auditors for the period covered by the historical financial information set out in this document. KPMG LLP, registered number OC301540, is a member of the Institute of Chartered Accountants in England and Wales, and its registered office is at 15 Canada Square, London E14 5GL.
- 22.7 RSM Corporate Finance LLP has given and not withdrawn its written consent to the inclusion in this document of the reports set out in Part V and has authorised the contents of its reports for the purposes of Schedule Two of the AIM Rules in the form and context in which they appear. RSM Corporate Finance LLP, registered number OC325347, is a corporate member of the Institute of Chartered Accountants in England and Wales, and its registered office is at 6th Floor, 25 Farringdon Street, London EC4A 4AB.
- 22.8 Save as set out in this document, there are no patents or intellectual property rights, licences or industrial, commercial or financial contracts which are of material importance to the Company's business or profitability.
- 22.9 Save as set out in this document, as far as the Directors and Proposed Directors are aware, there are no environmental issues that may affect the Company's utilisation of its tangible fixed assets.
- 22.10 Save as set out in this document no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- (a) received, directly or indirectly, from the Company within the 12 months preceding the date of this document; or
  - (b) entered into any contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:
    - (i) fees totalling £10,000 or more;
    - (ii) securities of the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or
    - (iii) any other benefit with the value of £10,000 or more at the date of this document.
- 22.11 The Ordinary Shares have not been sold, nor are they available, in whole or in part, to the public in connection with the application for Admission.
- 22.12 Save as disclosed in this document, the Directors and the Proposed Directors are not aware of any exceptional factors which have influenced the Company's activities.
- 22.13 Save as disclosed in this document, so far as the Directors and the Proposed Directors are aware, there are no known trends, uncertainties, demands, commitments or events that have or may have had in the last 12 months preceding the publication of this document a significant effect on the financial position of the Company or which are likely to have a material effect on the Company's prospects for the next 12 months.

### **23. Availability of admission document**

Copies of this document will be available free of charge during normal business hours on any week day (Saturdays' Sundays and public holidays excepted) until the date following one month after the date of Admission at the registered office of the Company and at the offices of N+1 Singer at One Bartholomew Lane, London EC2N 2AX.

Dated: 4 January 2016

## PART VIII

### NOTICE OF GENERAL MEETING

#### CASTLE STREET INVESTMENTS PLC

(the "Company")

*(Registered and incorporated in Scotland with company number SC368538)*

#### NOTICE OF GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a General Meeting of the Company will be held at the offices of DAC Beachcroft LLP, 100 Fetter Lane, London EC4A 1BN on 20 January 2016 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions (the "**Resolutions**") which in the case of Resolutions 1 and 2 will be proposed as ordinary resolutions and in the case of Resolutions 3 and 4 will be proposed as special resolutions.

#### Ordinary Resolutions

1. THAT, conditional on the passing of Resolutions 2 and 3, the proposed acquisition by the Company of the entire issued share capital of Selection Limited (the "**Acquisition**") pursuant to the terms of a conditional sale and purchase agreement dated 31 December 2015 and made between the Company (1) and certain shareholders of Selection Services Investments Limited (2) particulars of which are set out in the admission document dated 4 January 2016 (the "**Admission Document**") be and is hereby approved and that the directors of the Company be and are hereby authorised for the purposes of Rule 14 of the AIM Rules for Companies to take all steps necessary to effect the Acquisition with such minor modifications, variations, amendments or revisions and to do or procure to be done such other things in connection with the Acquisition as they consider to be in the best interests of the Company.
2. THAT, conditional upon the passing of Resolution 3, the directors of the Company be and are generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "**Act**") to exercise all powers of the Company to allot equity securities (as defined in section 560(1) of the Act) in the Company and/or to grant rights to subscribe for or to convert any security into such shares ("**Allotment Rights**"), but so that the maximum amount of equity securities that may be allotted or made the subject of Allotment Rights under this authority are:
  - 2.1 shares with a maximum nominal value of £2,500,000 (in connection with the proposed placing as described in the Admission Document accompanying the notice of general meeting (the "**Placing**") but for no other purpose);
  - 2.2 shares with a maximum nominal value of £33,845.25 (in connection with the proposed Acquisition but for no other purpose);
  - 2.3 shares with a maximum nominal value of £215,694.75 (in connection with the Warrants but for no other purpose);
  - 2.4 shares with a maximum nominal value of £16,666.65 (in pursuance of the exercise of options to be granted by the Company but for no other purpose);
  - 2.5 shares with an aggregate nominal value of £1,437,965.03 (in addition to the authorities conferred in sub-paragraphs 2.1, 2.2, 2.3 and 2.4 above) representing approximately 33 per cent. of the Company's enlarged issued share capital following the Placing and the Acquisition,

provided that this authority, unless duly renewed, varied or revoked by the Company, will expire on the date being fifteen months from the date of the passing of this resolution or, if earlier, the conclusion of the next annual general meeting of the Company to be held after the passing of this resolution, save that the Company may, before such expiry, make offers or agreements which would

or might require shares to be allotted or Allotment Rights to be granted after such expiry and, the directors may allot shares and grant Allotment Rights in pursuance of such an offer or agreement notwithstanding that the authority conferred by this resolution has expired.

### Special Resolutions

3. THAT, conditional on the passing of Resolution 2, the directors be and they are hereby empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) for cash, pursuant to the authority conferred by Resolution 2 or by way of a sale of treasury shares as if section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited to:

3.1 the allotment of equity securities in connection with an offer by way of a rights issue, open offer or other offer:

3.1.1 to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

3.1.2 to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any applicable regulatory body or stock exchange;

3.2 the allotment (otherwise than pursuant to sub-paragraph 3.1 above) of equity securities in connection with the Placing;

3.3 the allotment (otherwise than pursuant to sub-paragraphs 3.1 and 3.2 above) of equity securities in connection with the Acquisition;

3.4 the allotment (otherwise than pursuant to sub-paragraphs 3.1, 3.2 and 3.3 above) of equity securities in connection with the Warrants;

3.5 the allotment (otherwise than pursuant to sub-paragraphs 3.1, 3.2, 3.3 and 3.4 above) of equity securities on the exercise of options to be granted by the Company;

3.6 the allotment (otherwise than pursuant to sub-paragraphs 3.1, 3.2, 3.3, 3.4 and 3.5 above) of equity securities and the sale of treasury shares up to an aggregate nominal amount of £431,389.51 representing approximately 10 per cent. of the Company's enlarged issued share capital following the Placing and the Acquisition,

provided that the power granted by this resolution will expire on the date being fifteen months from the date of the passing of this resolution or, if earlier, the conclusion of the next annual general meeting of the Company to be held after the passing of this resolution (unless renewed, varied or revoked by the Company prior to or on such date), save that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and, the directors may allot equity securities or sell treasury shares in pursuance of such an offer or agreement notwithstanding that the authority conferred by this resolution has expired.

4. THAT,

4.1 the Company hereby ratifies and confirms the entry in the audited accounts of the Company for the year ended 31 December 2014 whereby distributable profits of the Company were appropriated to the payment of 3 pence per ordinary share, by way of a final dividend, on 4 July 2014 to shareholders on the share register on 6 June 2014 and the payment of such final dividend (the "Final Dividend");

- 4.2 to release all past and present shareholders who were shareholders of the Company on the share register on 6 June 2014 (being the same record date as applied to the Final Dividend), from any obligation to repay the unlawful part of the Final Dividend, amounting in aggregate to £382,542.79 and that any and all claims which the Company has or may have in respect of the payment or repayment of all or any part of the Final Dividend against its past or present shareholders who appeared on the register of shareholders on 6 June 2014, being the relevant record date for the Final Dividend, be released and that a deed of release in favour of such shareholders be entered into by the Company in the form of the deed produced to the Meeting and signed by the Chairman for the purpose of identification; and any distribution involved in the giving of any such release in relation to the unlawful part of the Final Dividend be made out of the profits appropriated to the Final Dividend as aforesaid by reference to a record date identical to the record date for such Final Dividend; and
- 4.3 any and all claims which the Company has or may have against its directors (whether past or present) arising in connection with the payment of the Final Dividend be released and that a deed of release in favour of such directors of the Company be entered into by the Company in the form of the deed produced to the Meeting and signed by the Chairman for the purposes of identification.

**BY ORDER OF THE BOARD**

**Niall Stirling**  
*Company Secretary*

*Registered Office:*

23 Manor Place  
Edinburgh  
Scotland  
EH3 7DX

4 January 2016

**Explanatory Notes:**

**1. Entitlement to attend and vote**

The Company specifies that only those members registered on the Company's register of members at:

- 6.00 p.m. on 18 January 2016; or,
  - if this General Meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting,
- shall be entitled to attend and vote at the General Meeting.

**2. Appointment of proxies**

If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the General Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

A proxy does not need to be a member of the Company but must attend the General Meeting to represent you. Details of how to appoint the Chairman of the General Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the General Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to more than one share. To appoint more than one proxy please refer to the notes on the Form of Proxy.

A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote (or abstain from voting) at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the General Meeting.

**3. Appointment of proxy using hard copy proxy form**

The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:

- completed and signed;
- sent or delivered to Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY; and

- received by Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY no later than 10.00 a.m. on 18 January 2016.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

#### **4. Appointment of proxy by joint members**

In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

#### **5. Changing proxy instructions**

To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

#### **6. Termination of proxy appointments**

In order to revoke a proxy instruction you will need to inform the Company using the following method:

By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY no later than 10.00 a.m. on 18 January 2016.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the General Meeting and voting in person. If you have appointed a proxy and attend the General Meeting in person, your proxy appointment will automatically be terminated.

#### **7. Submission of proxy electronically**

CREST members who wish to appoint a proxy or proxies through the CREST proxy appointment service may do so for the General Meeting (and any adjournment thereof) by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members (and those CREST members who have appointed a voting service provider) should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('Euroclear') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message (regardless of whether it relates to the appointment of a proxy, the revocation of a proxy appointment or to an amendment to the instruction given to a previously appointed proxy) must, in order to be valid, be transmitted so as to be received by the Issuers Agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments specified in note 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Issuers Agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members (and, where applicable, the CREST sponsors or voting service providers) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his or her CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST Manual (available at [www.euroclear.com/CREST](http://www.euroclear.com/CREST)) concerning practical limitation of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

#### **8. Resolution 4**

As highlighted in Note 18 to the Annual Report and Financial Statements of the Company for the year ended 31 December 2014, the board of directors recently become aware of a technical issue in respect of the Company's procedure for the payment of the Final Dividend (defined in resolution 4 above) of £2,136,000 paid to shareholders in July 2014. The Company had sufficient profits to pay the Final Dividend at the relevant time. However, under the Companies Act 2006, a public company can only pay a dividend out of its distributable profits as shown in the last accounts filed with Companies House. A public company can prepare and file interim accounts with Companies House showing a more recent distributable profit position if the last filed accounts do not show sufficient distributable profits. When the Company paid the Final Dividend, although it had sufficient distributable reserves to make such payment, the last accounts filed at Companies House for the year ended 31 December 2013 showed distributable profits of only £1,754,000. Interim accounts showing the requisite level of distributable profits for the whole of the Final Dividend had not been prepared and filed with the Registrar of Companies. As a result, part of the Final Dividend, to the extent of £382,542.79 was paid in technical infringement of the Companies Act 2006.

The Company has been advised that it may have claims against past and present shareholders who were recipients of the Final Dividend to recover the amount paid in respect of the unlawful part of the Final Dividend. Similarly, the Company has also been advised that it may have claims against directors of the Company at the time the decision was taken to pay the Final Dividend or who have subsequently been appointed as directors of the Company.

It is not the intention of the Company that any such claims should be made by the Company against either past and present shareholders who received the Final Dividend or against the past or present directors in respect of the Final Dividend. The position can be remedied by the shareholders passing a resolution which puts the shareholders and the directors into the position in which they were always intended to be.

Resolution 4 which is proposed as a special resolution will ratify the appropriation of profits to the payment of the Final Dividend and release of those past and present shareholders of the Company from any liability to repay the unlawful part of the Final Dividend; waive any rights of the Company against past and present directors of the Company in respect of the Final Dividend and approve the Company entering into deeds of release in favour of such shareholders and directors.

By virtue of the deeds of release, the Company will release the shareholders who appeared on the register of shareholders on the record date for the Final Dividend from any and all claims which it has or may have in respect of the payment of the Final Dividend and releases past and present directors of the Company from any and all claims which it has or may have arising at any time in respect of the payment of the Final Dividend of the Company.

Copies of the form of the deeds of release are available for inspection during normal business hours on any week day (except for Saturdays, Sundays and public holidays) at the registered office of the Company up to the time of the Meeting. Copies will be available at the place of the Meeting from at least 15 minutes prior to the Meeting until the conclusion of the Meeting.

The Board deems resolution 4 to be in the best interests of the Company and its shareholders as a whole. In light of the Directors interests in this resolution, the Board does not think it is appropriate to make a recommendation to shareholders as to how they should vote on the resolution other than that shareholders should vote on resolution 4. As a result of their interests in its subject matter, the Directors of the Company who are also shareholders (holding beneficially in aggregate 20.6 per cent of the issued share capital of the Company as at 30 December 2015, (the latest practicable date before publication of this notice) will not vote on resolution 4 and they have undertaken to take all reasonable steps to ensure that their associates will not vote on that resolution.