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This document comprises an admission document for the purposes of the AIM Rules. This document does not constitute and the Company is not making an offer of transferable securities to the public within the meaning of sections 85 and 102B of FSMA. Therefore this document is not an approved prospectus for the purposes of and as defined in section 85 of FSMA and has not been prepared in accordance with the Prospectus Rules and has not been approved by the FSA or by any other authority which could be a competent authority for the purposes of the Prospectus Directive.

Application will be made to the London Stock Exchange for the issued Ordinary Shares, including those to be issued pursuant to the Placing, to be admitted to trading on AIM. The Ordinary Shares are not dealt on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange. It is expected that the Ordinary Shares will be admitted to trading on AIM and that dealings in the Ordinary Shares will commence on 20 September 2005.

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 UK Listing Authority or any other investment exchange. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document.

The rules of AIM are less demanding than those of the Official List of the UK Listing Authority. Prospective investors should read the whole text of this document and should be aware that investment in the Company is speculative and involves a degree of risk. In particular, prospective investors should consider the section entitled "Risk Factors" set out in Part II of this document. All statements regarding the Company's business should be viewed in the light of these risk factors.

SQS Software Quality Systems AG

(Incorporated in Germany under the German Stock Corporation Act (Aktengesetz) with registered no. HRB 12764 (Cologne))

Placing of 5,673,000 Ordinary Shares of €1 each at 190p per share

and

Admission to trading on AIM

Evolution Securities Limited

Nominated Adviser, Broker, Lead Arranger and Joint Bookrunner

Sal. Oppenheim jr. & Cie. KGaA

Selling Agent and Joint Bookrunner

Share capital immediately following completion of the Placing

Registered and Issued Ordinary Shares with an imputed par value of €1 each

<i>Amount</i>	<i>Number</i>
€15,763,080	15,763,080

The Placing is conditional, *inter alia*, on Admission taking place on or before 20 September 2005 (or such later date as the Company, Evolution Securities Limited and Sal. Oppenheim may agree, being not later than 20 October 2005).

The shares now being placed will, following allotment, rank *pari passu* in all respects with the issued ordinary share capital of the Company on Admission including the right to receive all dividends and other distributions declared, made or paid on the shares after Admission.

The Placing is not being made, directly or indirectly, to or for the account or benefit of any US Person or in or into the United States, Canada, Australia, the Republic of Ireland, Japan or South Africa and this document must not be mailed or otherwise distributed or sent in or into the United States, Canada, Australia, the Republic of Ireland, Japan or South Africa. The Placing Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended. Furthermore, the Placing Shares have not been, and will not be, registered under the securities legislation of any state of the United States, any province of Canada, the Commonwealth of Australia, the Republic of Ireland, Japan or South Africa. Accordingly, unless an exemption under relevant securities laws is applicable, the Placing Shares may not be offered, sold or delivered, directly or indirectly to, or for the account or benefit of any US Person or in or into the United States, Canada, Australia, the Republic of Ireland, Japan and South Africa.

Evolution Securities Limited, which is regulated in the UK by the Financial Services Authority, is acting as the Company's nominated adviser and broker in connection with the proposed Placing and Admission. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any 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. Evolution Securities Limited has not authorised the contents of any part of this document and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by Evolution Securities Limited for the accuracy of any information or opinions contained in this document or for the omission of any material information from this document for which the Company and the Directors are solely responsible. Evolution Securities Limited will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of any acquisition of Ordinary Shares in the Company.

Sal. Oppenheim jr. & Cie KGaA accepts no responsibility whatsoever for the contents of this document nor for any other statement made or purported to be made by it or on its behalf in connection with the Company or the Ordinary Shares. Sal. Oppenheim jr. & Cie. KGaA accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this document or any such statement.

Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays and public holidays) at the offices of Evolution Securities Limited, 100 Wood Street, London EC2V 7AN and SQS Software Quality Systems AG, Stollwerckstrasse 11, 51149 Cologne, Germany from the date of this document and for a period of one month from Admission.

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DEFINITIONS

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

“Act”	the Companies Act 1985, as amended
“Admission”	admission of the entire ordinary share capital of the Company, issued and to be issued, to trading on AIM becoming effective pursuant to Rule 6 of the AIM Rules
“AIM”	the AIM market operated by the London Stock Exchange
“AIM Rules”	the rules for AIM listed companies and their nominated advisers published by the London Stock Exchange governing admission to, and the operation of, AIM
“AktG”	the German Stock Corporation Act (<i>Aktiengesetz</i>)
“Articles”	the articles of association of the Company
“Board”	the members of the Supervisory Board and of the Management Board for the time being
“Company”	SQS Software Quality Systems AG
“CREST”	the electronic, paperless transfer and settlement system to facilitate the transfer of title to shares in uncertificated form, operated by CRESTCo Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755) as amended
“Depositary”	Computershare Investor Services Plc
“DI”	a dematerialised depositary interest which represents an entitlement to Ordinary Shares held by the Depositary on trust for DI Holders
“Directors”	the members of the Supervisory Board and of the Management Board whose names and positions are set out on page 7 of this document and “Director” means any one of them
“Enlarged Issued Share Capital”	the issued ordinary share capital of the Company immediately following Admission and the Placing
“Evolution Securities”	Evolution Securities Limited, the Company’s nominated adviser and broker (for the purposes of the AIM Rules), lead arranger and joint bookrunner, a member of the London Stock Exchange and regulated in the UK by the Financial Services Authority
“FSMA”	the Financial Services and Markets Act 2000 (as amended)
“London Stock Exchange”	London Stock Exchange plc
“Management Board”	the management board of the Company, whose members are as set out on page 7 of this document
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	the no-par value ordinary registered shares in the capital of the Company having an imputed par value of €1.00 per share

“Placing”	the conditional placing of the Placing Shares at the Placing Price by Evolution Securities and Sal. Oppenheim on behalf of the Company, pursuant to the Placing Agreement and the Selling Shareholders’ Agreement
“Placing Agreement”	the conditional agreement dated 14 September 2005 and made between Evolution Securities, Sal. Oppenheim, the Directors and the Company relating to the Placing, details of which are set out in paragraph 9 of Part V of this document
“Placing Price”	190p, being the price at which each Placing Share is to be sold in the Placing
“Placing Shares”	the 5,673,000 new Ordinary Shares and 1,063,830 Sale Shares which are the subject of the Placing
“Prospectus Directive”	directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading
“Prospectus Rules”	rules made by the Financial Services Authority pursuant to sections 73A(1) and (3) of FSMA, as defined in section 417(1) of FSMA
“Sale Shares”	1,063,830 existing Ordinary Shares to be sold by the Selling Shareholders at the Placing Price pursuant to the Selling Shareholders’ Agreement
“Sal. Oppenheim”	Sal. Oppenheim jr. & Cie. KGaA, selling agent and joint bookrunner
“Selling Shareholders”	Heinz Bons and Rudolf van Megen, being existing Shareholders and sellers of the Sale Shares pursuant to the Placing with regard to the Placing Agreement
“Selling Shareholders’ Agreement”	the conditional placing agreement dated 14 September 2005 made between Evolution Securities, Sal. Oppenheim, the Selling Shareholders and the Company relating to the sale of the Sale Shares pursuant to the Placing, details of which are set out in paragraph 8 of Part V of this document
“Shareholders”	holders of the Ordinary Shares
“SQS” or “SQS Group” or “Group”	the Company and/or any of its subsidiaries
“Subscription Agreements”	the agreements between Evolution Securities, Sal. Oppenheim and the Company for the unconditional subscription by Evolution Securities and Sal. Oppenheim of new Ordinary Shares, further details of which are set out in paragraph 8 of Part V of this document
“Supervisory Board”	the supervisory board of the Company whose members are set out on page 7 of this document
“US”, “USA” or “United States”	United States of America, its territories and possessions, any state of the US and the District of Columbia
“US Person”	as defined in Regulation S of the United States Securities Act 1933, as amended
“UK”	United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA

GLOSSARY

Embedded Software Systems	technical, electronic systems or components that incorporate software to enable their intended functionality, for example, electronic brake systems in cars
ICT	information and communication technology, including hardware and software
INTACS	the International Assessor Certification Scheme
ISEB	the Information Systems Examination Board
ISTQB	the International Software Testing Qualification Board
IT	information technology, including hardware and software, a synonym for ICT
Quality Governance	a framework of various quality management services and related tools with the target to achieve the appropriate degree of transparency at management level on how quality related performance indicators are actually met
SAP	SAP AG, a leading German software company in the field of standard enterprise software
Test Case Specification	based on business requirements for software, test case specification is a method for defining those test cases which provide for a meaningful test coverage of that software
Test Data Definition	based on previously specified test cases or global business requirements for software, test data definition is a method of defining the technical data needed for test execution
Test Process Automation	test process automation is a method of defining the different technical steps necessary for automated test execution
Test Suites	databases with predefined test cases for a specific kind of standard software

EXPECTED TIMETABLE FOR ADMISSION

Publication of this document	14 September 2005
Admission and dealings in the Ordinary Shares expected to commence on AIM	20 September 2005
CREST accounts credited with DIs	20 September 2005
Despatch of definitive share certificates (where applicable)	by 27 September 2005

PLACING STATISTICS

Placing Price	190p
Gross proceeds receivable by the Company pursuant to the Placing	£10,778,700
Estimated proceeds of the Placing receivable by the Company net of expenses	£9,678,700
Number of Ordinary Shares in issue immediately following the Placing	15,763,080
Market capitalisation following the Placing at the Placing Price	£29,949,852
ISIN	DE0005493514

At the close of business on 13 September 2005 (being the latest practicable date prior to the publication of this document) unless otherwise stated, Placing and Admission statistics have been translated using the mid-market spot rate of exchange between sterling and Euro of £1:€1.4835.

DIRECTORS, SECRETARY AND ADVISERS

Directors	Supervisory Board Prof. Dr. Werner Mellis – <i>Chairman</i> Mr Scott Douglas Hansen – <i>Vice Chairman</i> Mr Jeremy John Hamer
	Management Board Mr Rudolf van Megen – <i>Chief Executive Officer</i> Mr René Wolfgang Franz Gawron – <i>Chief Financial Officer</i> Mr Heinrich (Heinz) Hermann Bons – <i>Chief Operating Officer</i>
Registered and Head Office	Stollwerckstrasse 11 51149 Cologne Germany Tel: +49 (2203) 91 540
Company Secretary	Wolfgang Moll
Nominated Adviser, Broker, Lead Arranger and Joint Bookrunner	Evolution Securities Limited 100 Wood Street London EC2V 7AN
Selling Agent and Joint Bookrunner	Sal. Oppenheim jr. & Cie. KGaA Unter Sachsenhausen 4 50667 Cologne Germany
Legal Advisers to the Company	Dechert LLP 2 Serjeants' Inn London EC4Y 1LT Dechert LLP Theresienstr. 6 80333 Munich Germany
Solicitors to the Placing	Memery Crystal 44 Southampton Buildings London WC2A 1AP
Auditors	Ernst & Young AG Wirtschaftsprüfungsgesellschaft Arnulfstr. 126 80636 München Germany
Reporting Accountants	Ernst & Young LLP One Bridewell Street Bristol BS1 2AA
Registrar	Computershare GmbH Cuvilliésstrasse 14a 81679 Munich Germany
UK Depositary and Custodian	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH
Principal Bankers	Deutsche Bank AG An den Dominikanern 11-27 50668 Cologne Germany HSBC Bank plc 168 High Street Guildford Surrey GU1 3YU

PART I

INFORMATION ON THE GROUP

Introduction

SQS is one of the largest independent European providers of software testing and quality management services by turnover. SQS is independent from software vendors and other IT service suppliers. It can therefore provide unbiased opinions to customers on the software products and projects it is engaged to assess and improve. SQS offers services designed to support the quality of software and IT systems from initial project definition through the development stage and up to final implementation and, thereafter, in relation to ongoing maintenance. For more than twenty years, SQS has been offering a comprehensive range of consulting services for enterprise and technical software systems to its clients which now include “blue chip” companies in a variety of industries, including financial services, telecommunications, logistics and manufacturing. SQS currently has 8 offices in 5 European countries and generated approximately €49 million in revenue in 2004.

SQS’s methodology and processes are based on its expertise which has been developed over the course of approximately 3,000 executed software quality projects with the aim of establishing a recognised standard for efficient software quality services. These methodologies which are continuously refined and updated, can be adapted to serve nearly every type of software system, from enterprise-wide IT systems to engineering-based software embedded in technical systems. SQS’s consultants work closely with their clients’ businesses and IT professionals to understand the requirements of a software system and the environment in which it is installed. They adapt test procedures to suit the scale of the project and its stage of development. SQS’s services can be used to detect and eliminate problems in existing software systems or to prevent problems from arising in software system design. SQS has also developed frameworks, in which off-the-shelf testing tools provided by third party vendors are combined with SQS’s proprietary tool-based methods to provide customised solutions, further increasing the scope of SQS’s consulting services.

From the outset, SQS has focused on how IT software quality can be improved. SQS has always recognised that no IT software system can work effectively unless it has a clearly defined purpose, and its limitations and specifications are clearly understood. SQS provides and continues to develop efficient testing and quality management services for both emerging and existing technologies and services to meet evolving business requirements.

SQS provides the following IT services and products in the field of software quality management and testing:

- *IT professional services*
SQS offers a variety of software testing and quality management services across all levels of execution, all of which can be offered under different types of contractual agreements; from time spent and materials used to fixed pricing.
- *IT training*
SQS is one of the largest European providers of quality management and software testing training courses. Certificated courses include ISTQB, ISEB and INTACS training.
- *Tool licences and maintenance*
SQS develops and designs a specialist range of software testing tools which work in conjunction with the tools available from competitors in the open market.
- *IT events*
SQS both organises and hosts the SQC conferences, two of the largest quality management and software testing events in Europe, being the international conference held in Germany during spring and the UK conference held in London during autumn.

In year ended 31 December 2004, IT professional services contributed approximately 92 per cent., IT training and IT events 3 per cent. and tools licenses and maintenance 5 per cent. respectively to SQS's overall revenue.

As of 30 June 2005, SQS employed 461 employees, of whom 337 were consultants and the remainder were divided between research and development (28), sales and marketing (16) and general administration (80). SQS's consultants are mainly from an IT/informatics or engineering background. They are trained in SQS's technical approach and applied techniques.

SQS's History

Heinz Bons and Rudolf van Megen started the business in 1982, and are both members of the Management Board. The idea behind the Company originated after Messrs. Bons and van Megen started investigating methods for the improvement of software testing whilst working on a university research project. In 1977 their research won the financial backing of both the German Federal Ministry of Research and Technology and Siemens AG.

Their investigations initially focused on the high level of defects in software products, in comparison with non-software products. They concluded that the high number of failures of software which had mostly not been detected was, in principle, due to a failure to adopt a systematic approach to software testing. Initial research led to the development of a process for systematic software testing in co-operation with several clients in the German IT software industry. After their initial three years researching software testing and a further two years as independent consultants, Heinz Bons, Rudolf van Megen, Carl van Megen and Josef Peters founded the Company in March 1982. Their initial key focus for the new Company was to establish a defined role for independent testing in the German market.

The Company has reached the following key milestones:

- In 1982, the Company started the development of a standard for software testing in co-operation with several "blue chip" clients. By 1985, this standard was licensed to several organisations in Germany. This established as a key foundation of the Group's services the concept of early error detection including early test preparation. In parallel, the Company took part in the development of two IEEE Standards (Institute for Electrical and Electronical Engineering) for software testing; IEEE-829 related to software test documentation and IEEE-1008 related to software unit testing.
- In 1984, the Company commenced development of a methodology for Test Case Specification that was licensed to several organisations in Germany and Switzerland.
- In 1986, the Company commenced development of a tool for Test Case Specification in co-operation with UBS (formerly Schweizer Bankgesellschaft). This was the first component of SQS's systematic testing tools and was called SQS-TEST.
- In 1988, the Company started development of a methodology for Test Data Definition, the second component of SQS's tool for systematic testing.
- In 1989, the Company developed a new methodology which became the third component of SQS's tool for Test Process Automation.
- In 1995, the Company expanded into the European market by joining the Bootstrap Institute. Bootstrap was a European economic interest group dedicated to developing and maintaining a model to assess software processes and to implementing improvement actions in IT organisations.
- In 1997, SQS acquired the majority shareholding in DTK Gesellschaft für technische Kommunikation GmbH (DTK), a Hamburg based company specialising in the testing of embedded software systems. The business of DTK has since been merged into SQS.
- In 1998, SQS set up their first foreign office in Spain as a joint venture with a Spanish partner, an individual who owned several other companies in the field of IT services and research and development. The Spanish operation was subsequently sold in 2004.

- In 1999, SQS acquired a majority shareholding in FTT Future Technology Team GmbH (“FTT”) in Cologne, a company specialising in IT security services. FTT has since been merged with SQS.
- In 2000, SQS expanded into Austria with the formation of SQS’s subsidiary, SQS Software Quality Systems Ges.mbH in Vienna.
- In 2001, SQS expanded into the Netherlands with the acquisition of a majority shareholding in AQsoft B.V. and AQpro B.V. in Zaltbommel (now SQS Nederlande B.V.).
- Also in 2001, the Company completed an acquisition in the UK, becoming the majority shareholder in SQS Group (UK) Limited (formerly SIM Group Limited).
- In 2002, SQS acquired the remainder of the shares in SQS Group (UK) Limited, and also expanded into Switzerland with the formation of Software Quality Systems (Schweiz) AG, a wholly owned subsidiary.
- In 2003 and 2004, SQS restructured its German organisation and expanded its portfolio of services with the introduction of high level quality management in complex IT and software systems including “Quality Governance”.

Strategy

SQS intends to exploit its established position in the industry to increase significantly its market share in Europe and to secure its position as one of the leaders in the market against existing and potential competitors.

The key elements of SQS’s strategy are to:

- *establish industry standards in software testing and quality management.* SQS intends to use its position as a leader in an evolving market to influence market standards for software testing and quality management. The Directors consider that this will assist SQS in establishing a quality standard that competing service providers will have to meet. The Directors believe that SQS’s approach to early system testing and to test automation, for example, is used by many of its clients.
- *leverage existing infrastructure to attract new clients in Germany and continue the Group’s expansion elsewhere in Europe.* SQS’s position in the market allows it to attract clients that are themselves market leaders. A number of international businesses require their software systems, which are managed from a number of countries, to be serviced and tested by a company that has an international presence. SQS intends to expand by using its existing client relationships to generate new business, to offer its broad base of services to new clients in markets where it is already established, and to acquire new companies (where appropriate) with attractive specialised skills. SQS intends to attract more business under longer term outsourcing contracts of up to five years, where SQS will execute the clients’ quality management and testing tasks under defined service level agreements. SQS will seek to broaden its presence in markets where software quality management is already established, including Germany, the United Kingdom, France, Austria, Scandinavia, the Benelux countries and Switzerland, and in addition establish new markets by emphasising and demonstrating the financial savings and efficient results that can be attained through effective software testing and quality management.
- *continue to provide high quality services to its clients and to expand the range of services offered.* SQS Group will seek to anticipate technological trends such as the increasing use of embedded systems in new products.
- *maintain the recruitment of high quality employees.* Highly qualified employees are vital to SQS’s success as a consultancy services provider. The majority of SQS’s consultants come from an IT/informatics or engineering background. All new employees receive initial training, and an average of one week per year of ongoing training.

Key Strengths

The Directors consider that the Group's key strengths are:

- methodologies and processes for efficient software testing and quality management developed over the course of approximately 3,000 projects;
- a knowledge base of software quality benchmarks and key performance indicators derived from client projects;
- the skills, capabilities and experience of its personnel; the Company's consultants currently have an average of approximately six years' experience at SQS;
- its existing reputation and client references;
- its scope of services ("one-stop-shop" approach for all software and IT quality matters); and
- its European reach and scale.

Market Opportunity and Background

Software quality management and testing constitutes a segment of the IT services market, and therefore growth in the IT services market closely correlates with growth in software quality management and testing. Research conducted by the European Information Technology Observatory ("EITO") in 2005 valued the market for IT services in Europe at €130 billion in 2005, growing at a rate of approximately 4.7 per cent. per year between 2004 and 2006. Based on their own estimates, the Directors believe that the market volume for software testing and quality management consulting services in Europe is growing more quickly than the overall IT services market. In Germany, according to a 2005 BITKOM (German association of IT product and service providers) market study, the IT consulting and IT support services market will grow at 2.1 per cent. in 2005 and 3.1 per cent. in 2006.

In addition, a 2005 Ovum Holway publication claims that, in 2004, the business process outsourcing services market grew in the UK by 14 per cent. In 2004, IDC estimated that worldwide spending in this field will grow by approximately 30 per cent. per annum between 2003 and 2008.¹

The market for software testing and quality management consultancy services is currently very fragmented. However, significant changes in business and manufacturing have led to an increased awareness of the importance of software quality. IT systems are growing increasingly complex. At the same time, software systems are appearing outside the traditional IT environment as demand increases for the functionality brought by software contained in various technical products, and for these products themselves to interact with complex networks. Automobiles' and airplanes' network systems for example, have historically contained a large number of components including braking, steering, and engine control systems. Nowadays, these components are increasingly dominated by software and have to communicate with larger networks. As more and more software products and mechanical components are required to interact, the complexity of these systems increases. Software has taken a "mission critical" role in a large number of business processes. Software quality testing can play a significant role in preventing or identifying software failures which could jeopardise the goals of a specific project, the performance of a product, or even the functioning of an entire business.

A large number of software products developed by a variety of vendors and other third parties are being integrated into IT systems. These providers and consultants bring a variety of expertise to a project and miscommunication is often the result. For example, where a business professional may want to be certain that the billing system properly transfers data to and from other parts of the IT system, the provider who designs the billing software is primarily concerned with the proper functioning of that billing software itself, and may be less likely to be concerned with the system as a whole. Such providers may also be unlikely to identify their own products as creating problems within a system, even if this is the case.

¹ This information has been accurately reproduced and, so far as the Directors are aware and are able to ascertain from information published by each of EITO, BITKOM, Ovum Holway and IDC, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Increased system complexity has resulted in an increase in system failure and cost and time overruns in implementing such systems. According to a study by Standish Group conducted in 2004, 53 per cent. of all IT projects incur time overruns and exceed budgeted spending (classified as “challenged projects” by Standish Group), 18 per cent. of all IT projects fail and only 29 per cent. of all IT projects are successful. The lost dollar value for US IT projects in 2003 is estimated at \$38 billion with another \$17 billion in cost overruns giving a total project waste of \$55 billion against \$255 billion in project spending². The Directors believe that as more and more money and time are spent on rectifying defective IT and other software projects, board members and senior management are more closely scrutinising their software developments, and demanding better quality and return on investment from these projects.

European Offices/Geographical Spread

SQS is headquartered in Cologne, Germany. Over the years the Company has established a strong national presence with regional offices in Munich, Frankfurt and Hamburg. This reach has allowed SQS to strengthen its market share in Germany.

SQS has also established European coverage in the form of subsidiaries in Austria, Netherlands, Portugal (minority interest), Switzerland and the UK. The Group’s local presence in these markets assists with new business wins and the recruitment of consultants. The 2004 revenue split by geographic region is 70 per cent. from Germany, 16 per cent. from the UK and 14 per cent. from other European countries.

Competition

SQS competes with a variety of companies that offer services similar to those supplied by it. SQS faces a variety of competitors depending on the type of service offered and technologies involved. Its competitors include:

- internal software testing teams who are allocated on a project by project basis from various departments of a company to perform software testing. In many cases they do not use specific software testing methodologies. The Directors believe that this is the Company’s most significant competition;
- information technology consulting firms such as Accenture, Logica CMG, CSC Computer Sciences Corporation, Sogeti-Transiciel and IBM Global Services. While these companies offer certain software testing and quality management services, they primarily provide systems integration and IT consulting capabilities;
- vendors of testing and quality management software products and tools such as Compuware, Mercury Interactive, Radview and Rational Software (a division of IBM). Product vendors offer technical consulting to support their own product. These product vendors can lack the software testing and quality management services methodologies and product independence that clients may demand;
- testing service providers such as Microgen/IMAGO, Dalysis, De Risk IT, IMBUS, MAP, Capita/Mission Testing, Qlabs, RelQ, Quality House, Tesnet, PS Testware and TESCOM. These providers typically offer independent testing and quality management services and are generally considered to be the Company’s direct competitors. However, with the exception of TESCOM, Tesnet and Qlabs none of these competing testing providers has a significant European footprint. So far as the Directors are aware, these competitors are typically active only on a local or regional basis, and most of them lack the more than 20 years’ experience demonstrated by SQS.

Besides existing competitors, SQS also expects to face competition from new participants. However, the Directors believe that the market’s demanding requirements for experience and expertise will present any newcomer with significant barriers to entry.

² This information has been accurately reproduced and, so far as the Directors are aware and are able to ascertain from information published by Standish Group, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Typical Project Structure

A typical SQS project begins with the SQS consultant meeting with those employees of the client responsible for the business aspects of the software project, determining the project's aim, the required stability and quality level necessitated by the application. The demands placed on the system include, for example, types of input, the maximum number of users and the required speed of operation. SQS then examines whether all considerations have been properly documented and communicated to the IT professionals involved in the project. Based on these considerations, SQS then determines the most efficient way of testing the software.

Testing preparation and test execution are then carried out. These services are provided at every stage of the project, from initial project definition through to implementation, which can often result in repeat business. Clients often find that problems identified by SQS could have been fixed at an earlier stage in the system development and implementation process, and often resolve to bring SQS in at much earlier stages in subsequent projects.

SQS's project work with the Airbus A380 programme serves as an example case study. From the initiation of the project, SQS has played an integral role in the testing of the cabin intercommunication data system as well as the verification of related systems. SQS worked with the product suppliers helping with the support and development of their sub-systems and ensuring products met the required standards. In addition, SQS also played a role in the review of supplier's processes including the preparation of certification. SQS has also played a key role in supporting the integration testing of the systems.

Financial Information

The following summary of financial information relating to the Group's activities for the three years ended 31 December 2004 has been extracted from the audited financial information on the Group set out in Section A of Part III of this document. Potential investors should read the whole of this document and not rely only on the following summary information.

	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>€000</i>	<i>€000</i>	<i>€000</i>
Revenue	48,668	44,751	50,950
Gross profit	16,726	10,424	12,713
Profit/(loss) before tax and financing result	3,529	(2,825)	(4,947)
Profit/(loss) before taxes	2,681	(3,728)	(6,157)
Profit/(loss) for the year	1,694	(2,072)	(3,894)

Current Trading and Prospects

The Group's unaudited interim results for the six months ended 30 June 2005 are set out in Section B of Part III of this document. Since 31 December 2004, the date to which the last audited accounts for the Group were prepared, the Group has continued to trade in line with the Directors' expectations with turnover ahead of last year.

Reasons for Admission and Placing and Use of Proceeds

The Directors believe that admission to trading on AIM will be beneficial to the Company for the following reasons:

- to facilitate the Group's strategy of expansion by acquisition by enabling the Company to offer equity as consideration and to provide capital to fund such acquisitions;
- to help fund working capital for long-term quality management outsourcing projects and new business opportunities;
- to allow the Company to repay approximately €6 million of its current bank loans and its €0.5 million loan from shareholders;

- to aid the raising, when necessary, of additional finance, whether equity or debt, for the future development of SQS's business; and
- to further raise the profile of the Group, providing an opportunity to reinforce its market position.

Further details on the proposed use of proceeds are included in Part IV of this document.

Directors and Senior Management

Brief biographies of the Directors and senior managers are set out below. Paragraph 7 of Part V of this document contains further details of the Directors' current and past directorships and certain other important information regarding the Directors.

Governing Bodies of the Company

Overview

The Company's governing bodies are the Supervisory Board (*Aufsichtsrat*), the Management Board (*Vorstand*), and the general shareholders' meeting (*Hauptversammlung*). The powers of these bodies are governed by the German Stock Corporation Act (*Aktiengesetz*) and the Articles.

Supervisory Board

The Supervisory Board of the Company must consist of at least three members. The Supervisory Board elects from among its members a Chairman, Prof. Dr. Mellis, and Scott Hansen is Vice Chairman. The Supervisory Board appoints the members of the Management Board and may remove them for good cause. It also monitors the Management Board's management of the Group, without being involved in daily management.

The members of the Supervisory Board perform, in broad terms, a function equivalent to that fulfilled by non-executive directors of a UK company and they do not have any form of executive role.

The current Supervisory Board members, listed below, were appointed at the general shareholders' meeting held on 20 June 2005 (with the exception of Jeremy Hamer who was appointed at a shareholders meeting on 25 August 2005), in each case for a term ending at the conclusion of the general shareholders' meeting for the financial year ending 31 December 2006. It is intended that proposals to re-elect members of the Supervisory Board will be put to Shareholders at two yearly intervals. For further details, see paragraph 5.7 of Part V of this document "Supervisory Board".

Prof. Dr. Werner Mellis, aged 54, is a professor of information systems specialising in software engineering management. After studying mathematics and physics at the University of Cologne, he was awarded a doctorate in mathematics in 1980. From 1984 to 1992 he held executive positions with Nixdorf Computer AG, in the area of product development, and with Daimler Benz AG, in the area of research and development, prior to his appointment as professor at Cologne University in 1993.

Scott Hansen, aged 45, is a management consultant based in Brussels. He received a joint bachelor of science degree in computer science, statistics and business management at Kansas State University in the United States and his Master of Science degree in management sciences at Stanford University, USA. He has served as a director of The Open Group and since 1997 has been on the board of several international organisations including 3SEI, QAI and The Procurement Forum. Mr Hansen is currently Project Director of four international projects funded by the European Commission in the areas of E-commerce, business innovation and software engineering. Previously, he was a managing director of several international IT companies and was a director at AT&T Data Systems until 1991.

Jeremy Hamer FCA, aged 53, was appointed to the Supervisory Board on 25 August 2005. A qualified chartered accountant, he was previously an associate of Elderstreet Private Equity Limited. He is also a director of a number of other quoted and unquoted companies, including Inter Link Foods plc and Avingtrans plc, and is non-executive chairman of Glisten plc and Berkeley Scott Group plc.

Management Board

Pursuant to the Articles, the Management Board consists of at least two members. The members of the Management Board are appointed by the Supervisory Board. The current appointments expire on 31 December 2007.

The current members of the Management Board are listed below:

Rudolf van Megen, aged 51, is Chief Executive Officer (“CEO”). He graduated with a degree in business administration from the University of Cologne specialising in informatics, after which he completed a three year research and development project at the University of Cologne sponsored by the Federal Secretary of Finance and Siemens AG, dealing with software testing and cost estimation. He subsequently co-founded the Company, together with Heinz Bons in 1982, where he was responsible for the industry and telecommunications sectors. He has particular responsibility for strategy, sales, marketing and services.

René Gawron, aged 43, is Chief Financial Officer (“CFO”). His main responsibilities are administration, accounting, finance, M&A, human resources and investor relations. After graduating with a degree in business administration from the University of Berlin, he held various positions at Siemens AG between 1985 and 2000, including, among others, head of business development for its mobile telecom networks. Before joining SQS as CFO in 2001, Mr Gawron was a member of the management board of a software company called Artificial Life (Deutschland) AG, and an electronics company called Meads Inc.

Heinz Bons, aged 56, is Chief Operating Officer (“COO”). He graduated with a degree in business administration from the University of Cologne specialising in informatics, after which he was involved in two research and development projects at the University of Cologne, one of which was sponsored by the Federal Secretary of Finance and Siemens AG and dealt with testing and cost estimation methodologies. He subsequently co-founded the Company, together with Rudolf van Megen in 1982. He has supervised numerous quality management projects, in particular in the financial services sector. In addition to being COO, his main responsibilities include research and development.

Senior Management

The Board considers the following individuals to be key senior members of the SQS Group management team:

Bob Bartlett, aged 56, Managing Director of SQS Group (UK) Limited, UK

One of the original founders of SQS Group (UK) Limited, prior to its acquisition by the Company in 2001, Bob Bartlett has more than 30 years’ IT and business management experience. He holds a University of California degree in computer sciences.

Axel Bartram, aged 41, Regional Manager (Central Germany)

Axel Bartram heads up the central office which focuses on financial service clients. He joined SQS in 1995 after having spent more than 10 years in the senior ranks of the German armed forces. He holds a degree in business administration from the University of Hamburg.

Robert Baumann, aged 44, Business Unit Manager Enterprise Standard Applications

Robert Baumann joined SQS in June 2005 after having spent 15 years at SAP and their German IT services subsidiary SAP SI, where he was a business unit manager (enterprise standard applications). His current responsibility is to increase the SQS footprint in SAP and other standard software projects with quality management services. Robert graduated from Berufsakademie in Mannheim after studying mechanical engineering.

Peter Boelter, aged 46, Managing Director of SQS Software Quality Systems BV, The Netherlands

Peter Boelter started with SQS in 1988. He represented SQS as Director in the Bootstrap Institute for 5 years and is now Vice President of INTACS (International Spice Assessor Certification Scheme). Peter is now responsible for new business in the Netherlands. Peter holds a University of Cologne degree in business administration, organisation and computer sciences.

Juergen Diener, aged 43, Regional Manager (South Germany)

Juergen Diener served in various senior management positions at Logica CMG for over 10 years before he joined SQS in July 2005. He studied information management and graduated from the Control Data Institute in Saarbruecken in 1987.

Ralph Gillessen, aged 36, Regional Manager (Southwest Germany)

Ralph Gillessen was appointed regional manager in 2005 after joining SQS in 2002 as an account manager. The unit focuses on financial services and insurance companies, and also IT systems of major industrial companies located in the south-west of Germany. Ralph has more than 14 years of professional experience in IT and holds a degree in business administration from the University of Hagen.

Dr. Joerg Kleinz, aged 41, Divisional Manager (Industry and Engineering, Germany)

Dr. Kleinz joined SQS in 1994. Dr. Kleinz focuses on software in embedded systems mainly in aeronautical, railway and automotive systems. Before joining SQS he spent more than 10 years in scientific research institutions working in the field of informatics and bio-chemics. He holds a degree in physics from the University of Giessen.

Uwe Stricker, aged 49, Regional Manger (North Germany)

Uwe Stricker joined SQS in 1990 and has held several senior management and consulting positions in the Company. For the last two years Uwe has headed up the North German office. Uwe studied informatics in Bielefeld.

Josef Widl, aged 50, Managing Director of SQS Software Quality Systems Ges.mbH, Austria

Josef Widl was Managing Director of Rational Software, Austria, a US software tool company now owned by IBM. Josef joined SQS in 2002 and brings more than 27 years of IT business experience to SQS.

Dr. Martin Wiczorek, aged 47, Regional Manager (West/East Germany)

Dr. Wiczorek joined SQS in 1994 after having spent more than 15 years carrying out various scientific research projects in informatics at the universities of Bochum and Nijmegen. In his region, Dr. Wiczorek mainly focuses on clients in telecommunications, logistics and the public sector. He holds a degree in mathematics from the University of Bochum.

Reto Zuest, aged 37, Managing Director of Software Quality Systems (Schweiz) AG, Switzerland

Reto Zuest joined SQS Group in 2003 as vice president of sales for the newly established Swiss operation. At the beginning of 2004, he became the Managing Director of SQS (Schweiz). He has a degree in economics from the University of St. Gallen and over 15 years' experience in sales and IT strategy consulting.

Share Incentive Arrangements

In order to retain and incentivise key employees, the two major shareholders, Heinz Bons and Rudolf van Megen, have granted options to certain key employees to purchase from them in aggregate approximately 575,000 Ordinary Shares (representing approximately six per cent. of the current issued share capital of the Company and approximately 3.6 per cent. of the Enlarged Issued Share Capital). In the event that an employee exercises any such options, Mr Bons and Mr van Megen will sell the relevant number of Ordinary Shares to such employee under the terms of the option agreement. These terms are summarised in paragraph 10 of Part V of this document. The exercise period will be from 1 October 2007 until 30 September 2009. The exercise price will be between €0.42 and €3.12 per Ordinary Share depending on the market price of the Ordinary Shares at the time of exercise; the higher the market price of the Ordinary Shares, the lower will be the exercise price. The number of options granted to each employee is between 560 and 75,000.

At a later stage the Directors intend to establish a share option programme to enable employees to subscribe for new Ordinary Shares.

Corporate Governance

The Directors recognise the value of the Combined Code on Corporate Governance published in July 2003 (“the Combined Code”). The Company intends, following Admission, to comply with the Combined Code so far as is practicable and appropriate for a German public company of its size and nature. The Company also proposes, so far as practicable, to follow the recommendations on corporate governance of the Quoted Companies Alliance (QCA).

The Board does not currently intend to establish audit, remuneration or nomination committees. This is because the Supervisory Board carries out the duties ordinarily assigned to such committees.

The Supervisory Board is responsible for reviewing and making awards in relation to the remuneration of the members of the Management Board, overseeing and reviewing the auditing of the Company’s accounts, and appointing and removing members of the Management Board.

In fulfilment of these functions, the Supervisory Board will receive and review reports from the Management Board and the Company’s auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the Group. The Supervisory Board will have unrestricted access to the Group’s auditors.

The Supervisory Board will also review the scale and structure of the remuneration and the terms of the service contracts of members of the Management Board. In view of the clear separation of roles which is provided for under German corporate law the Directors consider that the Company will be substantially in compliance with the recommendations of the Combined Code in matters such as remuneration, nomination and audit functions conducted by non-executive members of the Board. Further details of corporate governance are set out in paragraph 5 of Part V.

The Company will take all reasonable steps to ensure compliance by the Directors and employees with the provisions of the AIM Rules relating to dealings in the Company’s securities and has adopted a share dealing code for this purpose. To the extent that it is required to do so, the Company complies with the relevant corporate governance regime(s) applicable to a company of its size and nature in Germany.

CREST

CREST is the UK paperless system for the settlement of trades in securities and the holding of uncertificated securities enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument in accordance with the CREST Regulations. Under German law it is permitted for holdings of Ordinary Shares to be evidenced in uncertificated form in accordance with the CREST Regulations and the Articles do not alter this. However, under English law, shares of non-UK companies cannot be held and transferred directly in the CREST system. As a result, the Company has arranged for the creation and issue of DIs by the Registrar to allow settlement of dealing to take place in CREST. DIs are direct interests in the actual underlying security representing the same number of units and benefits as the underlying securities but because they are created under English law, they can be transferred and used as collateral under the existing legal framework. The Directors have applied for the DIs to be admitted to CREST with effect from Admission and CRESTCo Limited has enabled the DIs for settlement through CREST. Accordingly, settlement of transactions in the DIs following Admission may take place within the CREST system if Shareholders so wish.

Further information on the depositary arrangement and the holding of interests in Ordinary Shares in the form of DIs is available from the Depositary who may be contacted at Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH, United Kingdom.

Dividend Policy

The Directors intend to re-invest funds in the Company until such time as they believe the payment of dividends is appropriate. In reaching this decision the Directors will consider the availability of distributable profits whilst maintaining an appropriate level of dividend cover having regard to the need to retain sufficient funds to finance the development of the Company’s activities. There is no fixed dividend date.

Lock-in Arrangements

Heinz Bons and Rudolf van Megen and their respective wives who following Admission, will have, in aggregate, an interest in 8,958,278 Ordinary Shares (representing approximately 57 per cent. of the Enlarged Issued Share Capital), have undertaken not to sell, charge or grant any interests over any Ordinary Shares held by them (excluding the Ordinary Shares the subject of the option arrangements referred to on page 16 of this document) or in respect of which they have any interests (subject to certain exceptions) for 12 months following Admission and to only sell, charge or grant any interests over 50 per cent. of their Ordinary Shares during the second year following Admission, and for a further 12 months thereafter, to consult Evolution Securities and Sal. Oppenheim prior to any disposal and to make any disposal through Evolution Securities and Sal. Oppenheim.

The Placing

5,500,000 of the Placing Shares will be issued subject to Admission on 20 September 2005. A further 173,000 Placing Shares will be issued by not later than 30 September 2005.

Following the completion of the Placing, the Company will have 15,763,080 Ordinary Shares in issue and a market capitalisation of approximately £29,949,852 at the Placing Price. 5,673,000 new Ordinary Shares are being placed on behalf of the Company, which represent approximately 36 per cent. of the Enlarged Issued Share Capital. The placing of the 5,673,000 new Ordinary Shares is fully underwritten. The proceeds receivable by the Company, net of expenses, are estimated to be approximately £9,678,700 million.

The Selling Shareholders will also sell the Sale Shares at the Placing Price pursuant to the Placing. The placing of the Sale Shares is not being underwritten.

Particulars of the Placing Agreement and the Subscription Agreement are set out in Part V of this document. The Placing Shares will be in registered form and, on Admission, will rank *pari passu* in all respects with the other issued Ordinary Shares and will rank in full for dividends and other distributions declared, paid or made following Admission in respect of the Ordinary Share capital of the Company. It is expected that definitive title to the Placing Shares will be delivered either under CREST on the date of Admission, where delivery is requested in uncertificated form, or by first class post by no later than 14 days from such date, where delivery is requested in certificated form. No temporary documents of title will be issued.

Taxation

Information regarding United Kingdom and German taxation with regard to the Placing is set out in paragraph 13 of Part V of this document. If you are in any doubt as to your tax position, you should consult your professional adviser immediately.

Further Information

Your attention is drawn to the risk factors set out in Part II of this document, the financial information on the Group set out in Parts III and IV of this document and the additional information set out in Part V of this document.

PART II

RISK FACTORS

In addition to all other information set out in this document, investors should carefully consider the risk factors described below before making a decision to invest in the Company. If any of the following events actually occur, the Group's business, financial condition, results or future operations could be materially affected. In such circumstances, the price of the Company's shares could decline and investors could lose all or part of their investment. This document contains forward-looking statements that involve risks and uncertainties. The Group's results could actually differ materially from those anticipated in the forward-looking statements as a result of many factors, including, without limitation, the risks faced by the Group, which are described below and elsewhere in this document. Making an investment in the Company may not be suitable for all recipients of this document. An investment in the Company is only suitable for investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result from such investment. If you are in any doubt about the action you should take, you should consult a professional adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. This summary of risk factors is not exhaustive.

SQS may lose repeat business and face damage to its reputation if its performance on key projects does not meet client expectations.

SQS depends on its relationships with its clients, particularly those who contract for high-profile key projects, and on its reputation for high-quality services and integrity to attract and retain clients. As a result, if a client, especially one involved in a key project, is not satisfied with SQS's services, this may be more damaging to its business than would be the case for other businesses.

SQS's profitability will suffer if it is not able to maintain the fees charged for its services and control its utilisation rates and costs.

SQS's profit margin, and therefore its profitability, is largely a function of the rates it is able to charge for its services and the utilisation rate of its employees. Accordingly, if SQS is not able to maintain the rates it charges for its services or an appropriate utilisation rate for its employees, it will not be able to sustain its profit margin. The rates SQS is able to charge for its services are affected by a number of factors, including:

- pricing pressures exerted by existing and potential clients;
- pricing policies of competitors;
- clients' perception of SQS's ability to add value through its services;
- introduction of new services or products by SQS or its competitors; and
- general economic conditions.

SQS's utilisation rates are also affected by a number of factors, including:

- seasonal trends, primarily as a result of its hiring cycle and holiday and summer vacations;
- the ability to transition employees from completed projects to new engagements;
- the ability to forecast demand for services and thereby maintain an appropriate headcount; and
- the ability to manage attrition.

SQS's business will be negatively affected if the rate of growth in the usage of information technology (IT) in business decreases.

SQS's business is dependent, in part, upon continued growth in the use of IT in business by clients and prospective clients and their customers and suppliers. If the growth in the use of IT does not continue, demand for SQS's services may decrease. Companies that have already invested substantial resources in IT

and IT staff may be particularly reluctant or slow to adopt new approaches that may make some of their existing personnel redundant and infrastructure obsolete.

SQS's success depends to a large extent on its management and the activities of senior management.

SQS's success and ability to grow are dependent, to a large extent, on the skills, experience, and performance of its executive officers and other key management, technical, and sales staff. SQS is particularly dependent on its founders, Heinz Bons, Chief Operating Officer, and Rudolf van Megen, Chief Executive Officer, the loss of either of whose services could have a material impact on SQS's business, financial condition, and results of operations.

SQS's success depends on its ability to attract and retain qualified personnel.

SQS believes that its future success and its ability to achieve increases in revenue will depend to a large extent on its success in hiring and retaining qualified employees. In addition, SQS incurs substantial costs in recruiting, hiring and training professionals before these employees become productive. There can be no assurance that SQS will be successful in attracting and retaining future employees or retaining current employees, or that employees will continue to achieve high productivity levels. In addition, even if SQS is able to expand its team of highly skilled professionals, the resources required to attract, train, and retain these employees may adversely affect SQS's operating results.

SQS's results of operations may be affected negatively by changes in exchange rates.

As a result of its international business activities, SQS's operating revenues may be subject to fluctuations due to currency exchange variations in relation to the euro, particularly the UK Sterling and the Swiss Franc. Exchange rate fluctuations may diminish the revenues in foreign currencies which SQS presently realises and which it hopes to expand in the future. There can be no assurance that exchange rate fluctuations will not have a material adverse effect on SQS's results of operations.

The market for external software testing and quality management services is not yet strongly established, and SQS may be unable to compete effectively with the internal IT departments of potential clients or other competitors.

SQS operates in a highly competitive, and rapidly changing market and competes with a variety of organisations that offer similar services.

Many of SQS's competitors have significantly greater financial, technical, sales, and marketing resources and greater name recognition than SQS. In addition, SQS has faced, and expects to continue to face, additional competition from new entrants into this market. There can be no assurance that SQS will be able to continue to compete successfully with its existing competitors or that it will be able to compete successfully with new competitors.

SQS may need additional financing to expand its business through acquisitions, which could be difficult to obtain.

SQS's expenditure to support its growth may be greater than anticipated if unforeseen circumstances arise. If SQS requires additional funds, it cannot be certain that additional funding will be available when needed or that such funding will be available on acceptable terms.

An economic downturn could have a materially adverse effect on SQS's operations.

SQS's results are affected by client levels of business activity, which in turn are affected by the level of economic activity in the industries and markets that they occupy. Declines in the level of business activity of SQS's clients have had and could continue to have a materially adverse effect on revenue. As a result, SQS may be subject to increasing pricing pressures from its clients and decreasing demand for its services. There can be no assurances regarding the duration and depth of an economic downturn or that pricing pressures or decreasing demand for its services will not reduce SQS's results of operations.

Any strategic investment or acquisition SQS may undertake in the future will involve risks. SQS may pursue acquisitions to expand into additional European markets, increase its service offerings, and provide additional industry expertise. Potential acquisitions may involve significant expense. They also involve numerous risks, including:

- difficulties in integrating the operations, technologies, products, and personnel of the acquired company or business;
- the diversion of management's attention from other business concerns;
- entering into markets in which SQS has no or limited prior experience; and
- the potential loss of key employees of the acquired company. Although SQS evaluates opportunities from time to time, it has no current commitments with respect to any specific transaction. If SQS pursues an acquisition and encounters the difficulties discussed, this could have a material adverse impact on SQS's business, financial condition and results of operations. Further, if SQS issues new equity securities to make any such investments or acquisitions, shareholders may experience additional dilution.

The majority of SQS's engagements may be terminated by clients on short notice.

Clients typically retain SQS on a non-exclusive, engagement-by-engagement basis, rather than under exclusive long-term contracts. SQS estimates that the majority of its contracts can be terminated by clients with one to two months' notice and without significant penalty. Additionally, large client projects involve multiple engagements or stages, and there is a risk that a client may choose not to retain SQS for additional stages of a project or that a client will cancel or delay additional planned engagements. These terminations, cancellations, or delays could result from factors unrelated to SQS's work product or the progress of the project, but could be related to business or financial conditions of the client or the economy generally. When contracts are terminated, SQS loses the associated revenues and may not be able to eliminate associated costs in a timely manner.

SQS's business will be negatively affected if it is not able to keep up with rapid changes in information technology.

SQS's success will depend, in part, on its ability to develop and implement software testing and quality management solutions that anticipate and keep pace with rapid and continuing changes in technology, industry standards, and client preferences. SQS may not be successful in anticipating or responding to these developments on a timely basis, and its ideas may not be successful in the marketplace. Also, products and technologies developed by SQS's competitors may make its service offerings uncompetitive or obsolete. Any one of these circumstances could have a material adverse effect on SQS's ability to obtain and successfully complete important client engagements.

Major current shareholders have significant voting power and may take actions that may not be consistent with the interests of other shareholders.

Following this Admission, Heinz Bons, SQS's co-founder and Chief Operating Officer, and Rudolf van Megen, its co-founder and Chief Executive Officer, together with their respective affiliates will control approximately 65 per cent. of SQS's outstanding Ordinary Shares. As a result, these shareholders, if they act together, will be able to control the management and affairs of SQS and all matters requiring shareholder approval, including the election of members of the Supervisory Board and the approval of certain mergers and other significant corporate transactions, such as a sale of substantially all of SQS's assets. This concentration of ownership may make some transactions more difficult and may delay or prevent a change in control.

SQS Shares have not been publicly traded, and its share price may fluctuate substantially.

Prior to the Placing, there has been no public market for the Ordinary Shares. An active public market for the Ordinary Shares may not develop or be sustained after the Placing. The market price of the Ordinary Shares after the Placing will vary, perhaps significantly, from the Placing Price. Investors may be unable to sell their Shares at or above the Placing Price. The Ordinary Shares are expected to be admitted for trading on AIM. Most of the companies listed on this trading segment have experienced sharp fluctuations in their share prices, and there is no assurance that the Ordinary Shares will not experience similar price volatility.

A sale of a substantial number of SQS Shares may cause share prices to decline.

If substantial amounts of the Ordinary Shares are sold in the public market after Admission, the market price of Ordinary Shares could fall. These sales also might make it more difficult for SQS to sell or issue equity securities in the future at a time and price that the Company deems reasonable or appropriate. In addition, after the expiration of the various lock-up periods entered into by SQS's current shareholders in connection with the Placing, an additional 8,958,278 Ordinary Shares will be eligible for trading on AIM. If a significant amount of the Ordinary Shares are offered for sale at the same time after the lock-up periods expire, this could adversely affect SQS's share price.

SQS may be unable to manage its growth effectively.

The Group's plans to continue its growth will place additional demand on the Group's management, customer support, marketing, administrative and technological resources. If the Group is unable to manage its growth effectively, its business, operations or financial condition may deteriorate.

There may not be a liquid trading market for the Ordinary Shares.

The market price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Group, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, general economic conditions, legislative changes affecting the Group's sector and other events and factors outside of the Company's control.

In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Ordinary Shares.

Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. Prior to Admission, there has been no public market for the Ordinary Shares and there is no guarantee that an active market will develop or be sustained after Admission. It may be more difficult for an investor to realise his investment in the Company than in a company whose shares are quoted on the Official List.

PART III

FINANCIAL INFORMATION ON THE GROUP

Section A – Financial information for the three years ended 31 December 2004

Consolidated Income Statements

for the years ended 31 December

	<i>Notes</i>	<i>2004</i> €000	<i>2003</i> €000	<i>2002</i> €000
Revenue				
Rendering of services	2, 6	48,668	44,751	50,950
Cost of sales		(31,942)	(34,327)	(38,237)
Gross profit		<u>16,726</u>	<u>10,424</u>	<u>12,713</u>
Sales and marketing expenses	3	2,829	2,452	3,462
Research and development expenses	3	2,426	2,710	2,790
General and administrative expenses	3	7,942	8,087	11,408
Earnings before financing, tax, depreciation and amortisation				
		5,817	(879)	(3,371)
Depreciation and amortisation		(2,288)	(1,946)	(1,576)
Profit/(loss) before tax and financing result				
		3,529	(2,825)	(4,947)
Financing result	4	(848)	(903)	(1,210)
Profit/(loss) before taxes				
		2,681	(3,728)	(6,157)
Income tax (charge)/credit	5	(767)	1,656	2,263
Value added tax	5	(220)	–	–
Profit/(loss) for the year				
	6	<u>1,694</u>	<u>(2,072)</u>	<u>(3,894)</u>
Attributable to:				
Equity shareholders		1,737	(2,132)	(3,514)
Minority interests		(43)	60	(380)
Consolidated profit/ (loss) for the year				
		<u>1,694</u>	<u>(2,072)</u>	<u>(3,894)</u>
Earnings per share, undiluted and diluted (€)	7	<u>0.17</u>	<u>(0.21)</u>	<u>(0.35)</u>

Consolidated Balance Sheets

as at 31 December

	Notes	2004 €000	2003 €000	2002 €000
ASSETS				
Non current assets				
Intangible assets	8	13,238	13,422	13,056
Tangible assets	9	905	1,430	2,002
Deferred taxes	5	2,006	2,463	1,123
		<u>16,149</u>	<u>17,315</u>	<u>16,181</u>
Current assets				
Cash and cash equivalents	10	1,478	602	4,179
Trade and other receivables	11	9,242	8,500	8,243
Work in progress	12	251	308	933
Income tax receivable	5	218	182	1,280
		<u>11,189</u>	<u>9,592</u>	<u>14,635</u>
TOTAL ASSETS		<u>27,338</u>	<u>26,907</u>	<u>30,816</u>
EQUITY AND LIABILITIES				
Current liabilities				
Bank loans and overdrafts	13	3,159	3,955	4,457
Convertible bonds	13	1,130	–	1,130
Trade and other creditors	14	7,282	7,800	7,762
Tax accruals	5	525	48	75
Tax liabilities	5	1,787	1,168	1,963
		<u>13,883</u>	<u>12,971</u>	<u>15,387</u>
Non current liabilities				
Bank loans	13	11,478	12,316	13,155
Liabilities under leasing contracts	15	–	89	12
Convertible bonds	13	–	1,130	–
Pension and other accruals	16	468	264	292
Deferred taxes	5	574	588	464
		<u>12,520</u>	<u>14,387</u>	<u>13,923</u>
TOTAL LIABILITIES		<u>26,403</u>	<u>27,358</u>	<u>29,310</u>
Equity				
Share capital	17	4,202	4,204	4,204
Share premium		1,669	1,669	1,669
Statutory reserves		53	53	53
Foreign currency translation differences		143	179	64
Retained earnings		(5,132)	(6,775)	(4,643)
Equity attributable to equity shareholders		<u>935</u>	<u>(670)</u>	<u>1,347</u>
Minority interests		–	219	159
TOTAL EQUITY		<u>935</u>	<u>(451)</u>	<u>1,506</u>
TOTAL EQUITY AND LIABILITIES		<u>27,338</u>	<u>26,907</u>	<u>30,816</u>

Consolidated Cash Flow Statements

for the years ended 31 December

	Notes	2004 €000	2003 €000	2002 €000
Net cash flow from operating activities	19	5,043	52	6,197
Cash effect of foreign exchange rate movements		24	(31)	83
Interest payments		(820)	(692)	(1,350)
Tax payments		164	413	805
Net cash flow from current business activities		4,411	(258)	5,735
Cash flows from investing activities				
Purchase of intangible assets		(1,437)	(1,806)	(1,783)
Purchase of tangible assets		(230)	(279)	(655)
Purchase of subsidiary undertakings	20	–	–	(11,792)
Purchase price adjustments on the acquisition of subsidiary undertaking	20	–	–	441
Proceeds from the sale of investments	20	–	–	96
Proceeds from the sale of tangible assets		24	–	–
Foreign currency result		(24)	(54)	–
Interest received		31	10	57
Changes in financial resources due to loss of control of subsidiary undertakings		(80)	–	–
Net cash flow from investing activities		(1,716)	(2,129)	(13,636)
Cash flows from financing activities				
Dividends paid		–	–	(547)
Proceeds from the issue of share capital		–	–	266
Repurchase of shares		(96)	–	–
Dividends paid to minority interest		–	–	(223)
Proceeds from borrowings		–	–	11,635
Proceeds from issue of convertible bonds		–	–	1,130
Repayment of borrowings		(1,634)	(1,341)	(4,306)
Redemption/termination of leasing contracts		(89)	32	(64)
Net cash flow from financing activities		(1,819)	(1,309)	7,891
Change in the level of funds affecting payments		876	(3,696)	(10)
Changes in financial resources due to exchange rate movements		–	119	–
Cash and cash equivalents at the beginning of the year		602	4,179	4,189
Cash and cash equivalents at the end of the year		1,478	602	4,179

Consolidated Statement of Changes in Equity Attributable to Equity Shareholders

for the years ended

	Share capital (note 17) €000	Share premium €000	Statutory reserves €000	Currency translation differences €000	Retained earnings €000	Total €000	Minority interest €000	Total equity €000
At 1 January 2002	4,197	1,410	53	1	(1,129)	4,532	539	5,071
Issue of share capital	7	259	–	–	–	266	–	266
Currency translation differences	–	–	–	63	–	63	–	63
Loss for the year	–	–	–	–	(3,514)	(3,514)	(380)	3,894
At 31 December 2002	4,204	1,669	53	64	(4,643)	1,347	159	1,506
Currency translation differences	–	–	–	115	–	115	–	115
Loss for the year	–	–	–	–	(2,132)	(2,132)	60	2,072
At 31 December 2003	4,204	1,669	53	179	(6,775)	(670)	219	(451)
Currency translation differences	–	–	–	(36)	–	(36)	–	(36)
Own shares cancelled	(2)	–	–	–	(94)	(96)	–	(96)
Profit for the year	–	–	–	–	1,737	1,737	(43)	1,694
Disposal of subsidiary	–	–	–	–	–	–	(176)	(176)
At 31 December 2004	4,202	1,669	53	143	(5,132)	935	–	935

Statutory reserves

The statutory reserves in SQS AG were formed in accordance with Section 150 of the Stock Corporation Act (Germany).

Currency translation differences

The foreign currency translation differences arise on conversion of the opening reserves of subsidiary undertakings where the functional currency of the subsidiary is not the Euro.

Retained earnings

Retained earnings represent the accumulated retained profits less losses of SQS Group

This financial information presents the consolidated results and retained earnings of the entire SQS Group.

No dividends have been paid or proposed in any of the financial years ended 31 December 2002, 2003 and 2004.

Notes to the Financial Information

1. Summary of Significant Accounting Policies

Basis of preparation

The financial information is based on the published audited consolidated financial statements of SQS Software Quality Systems AG ('SQS') for the three years ended 31 December 2004 which were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the EU. The financial information has been prepared on the basis set out below after making such adjustments to the published audited consolidated financial statements for the two years ended 31 December 2003 so as to present results on a consistent basis. No adjustments were made to the financial information for the year ended 31 December 2004.

The financial information has been prepared on the historical cost basis. The financial information is presented in Euros and amounts are rounded to the nearest thousand (€000) except when otherwise indicated.

The financial information has been prepared on the going concern basis. If the AIM Admission and Placing is unsuccessful, the Company's two largest existing shareholders have committed to defer repayment of amounts due to them and to defer future payments which are due to them, if necessary, to enable the Group to continue to trade for a period of at least 12 months from the date of the AIM Admission Document.

Statement of compliance

The financial information of SQS and its subsidiaries (together the 'SQS Group') has been prepared in accordance with IFRS as adopted for use in the EU.

The principal activities of the SQS Group are described in note 2.

Adjustments made to the financial information

The financial information has been presented in accordance with IFRS 3 'Business Combinations', IAS 36 'Impairment of Assets' and IAS 38 'Intangible Assets' with effect from 1 January 2002. Therefore, in this financial information, SQS Group has not amortised goodwill from 1 January 2002 (in the consolidated financial statements for the two years ended 31 December 2003, which were not required to be prepared in accordance with IAS 36 and IAS 38, goodwill was amortised). It does test for impairment on an annual basis at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently).

Basis of consolidation

The financial information comprises the financial statements of SQS and its subsidiaries as at 31 December each year. Subsidiary company financial statements are prepared on a consistent basis to those of other SQS Group companies. All companies in the SQS Group have the same accounting reference date of 31 December.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the SQS Group and cease to be consolidated from the date on which control is transferred out of the SQS Group.

1. Summary of Significant Accounting Policies (continued)

As at 31 December, the Company held interests in the share capital of the following undertakings:

Name	Country of incorporation	Percentage of equity share capital held		
		2004	2003	2002
SQS Group (UK) Limited (formerly SIM Group Limited)	UK	100.0	100.0	100.0
SQS Nederland BV	Netherlands	90.5	90.5	90.5
SQS Software Quality Systems GesmbH	Austria	100.0	100.0	100.0
Software Quality Systems (Schweiz) AG	Switzerland	97.0	97.0	97.0
Software Quality Systems, SA	Spain	–	50.0	50.0
SQS Portugal Lda	Portugal	15.0	51.0	51.0
SQS Software Quality Systems (UK) Limited ^(*)	UK	100.0	100.0	100.0
Systems Integration Management Limited ^(*)	UK	100.0	100.0	100.0

(*) indirectly held

Shares held by SQS in Software Quality Systems S.A, a company incorporated in Spain, in which SQS had a 50 per cent. interest, were sold on 30 September 2004 and this company's results ceased to be consolidated from this date.

In addition, 36 per cent. of the shares in SQS Portugal Lda., were sold, effective from 31 December 2004, and the results of this company ceased to be consolidated from this date. The SQS Group retains a 15 per cent. interest in the shares of SQS Portugal Lda.

Foreign currency translation

The functional and presentational currency of the Company and its Euroland subsidiaries is the Euro (€). For these entities, transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement.

The functional currency of SQS Group (UK) Limited and its subsidiaries is UK pounds sterling (£). The functional currency of SQS Software Quality System (Schweiz) AG is the Swiss Franc. At the reporting date, the assets and liabilities of these subsidiaries are translated into Euros at the rate of exchange ruling at the balance sheet date and the income statement translated at the weighted average exchange rate for the year. Exchange differences arising on retranslation are taken directly to a separate component of equity (foreign currency translation differences). On disposal of a foreign entity, the cumulative amount of exchange differences relating to the entity are transferred from reserves to the consolidated income statement.

Freehold land and buildings, office and business equipment

Freehold land, buildings, office and business equipment are stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is considered to have an indefinite useful economic life. Depreciation on all other assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	– over 40 years
Office and business equipment	– over 3 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For assets that do not generate (largely) independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement in the cost of sales line item.

1. Summary of Significant Accounting Policies (continued)

Assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year the item is derecognised.

Borrowing costs

Borrowing costs are recognised as an expense when incurred in accordance with IAS 23.

Goodwill

Goodwill arising on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities. Any minority interest in the acquiree is stated at the minority's proportion of the net fair values of those items. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As noted above, in order to present income statements prepared on a consistent basis, goodwill amortisation charges made in the SQS Group financial statements in 2002 and 2003 has been netted off goodwill at 1 January 2002 as presented in note 8 to the Financial Information.

At the acquisition date goodwill is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operations within that cash generating unit are disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost. Intangible assets acquired as part of a business combination are capitalised at fair value as at the date of acquisition. The useful lives of these intangible assets are assessed to be either infinite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the consolidated income statement through the 'administrative expenses' line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful life of intangible assets is assessed at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has been amortised over its useful life. Amortisation periods for intangible assets with finite useful lives are reviewed annually or earlier where an indicator of impairment exists.

Research and development costs, software and licences

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

1. Summary of Significant Accounting Policies (continued)

Amortisation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Software and development costs – 3 years
Licences – 3 to 5 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Recoverable amount of other non-current assets

At each reporting date, the SQS Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the SQS Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered to be impaired and it is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash generating unit's realisable value and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Trade and other receivables

Trade receivables, which generally have 15-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. Further details are given in note 10 to the financial statements.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

Provisions

Provisions are recognised when the SQS Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the SQS Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain the expense relating to any provision is presented in the income statement net of any reimbursement.

Pensions and other post-employment benefits

The SQS Group makes contributions to employees' personal pension plans based on the legal requirements of the particular country in which the employee is employed. These funds are defined contribution (money purchase) schemes.

In addition, the SQS Group operates a defined benefit pension scheme for certain senior employees, which requires contributions to be made to a separately administered fund. The cost of providing benefits under this plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised immediately in the period to which they relate.

1. Summary of Significant Accounting Policies (continued)

Leases

Finance leases, which transfer to the SQS Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the SQS Group and the revenue can be reliably measured. The majority of revenue relates to the provision of consultancy services at pre-agreed hourly rates. A minority of revenue relates to fixed price contracts where revenue is recognised when it is probable that economic benefit will flow and is calculated on the basis of the percentage completion of such contracts.

Interest income

Interest income is recognised as the interest accrues (using the effective interest method being the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Income taxes

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

The tax currently payable is based on the taxable profits for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises on goodwill that is not tax deductible or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

1. Summary of Significant Accounting Policies (continued)

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Revenues, expenses and assets are recognised net of the amount of customs duties or sales tax except:

- where the customs duty or sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the customs duty or sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of customs duty or sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Derecognition of financial instruments

The derecognition of a financial instrument takes place when the SQS Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

2. Segmental reporting

The SQS Group's segmental reporting is in accordance with IAS 14. The directors consider that the SQS Group has one class of business, being consultancy and testing for software quality assurance. Other activities such as the provision of seminars and training or the sale of software products serve the primary business purpose and are accordingly not regarded as segments requiring separate disclosure. Accordingly, the geographical segments in Germany, the UK and other European countries ('Rest of Europe') are defined as the primary reporting segments.

Transactions between the segments or legal entities are made on an arms length basis. Centrally incurred external costs relating to subsidiaries are recharged to the subsidiaries affected. Cost allocations between the segments or legal entities are not charged.

2. Segmental reporting (continued)

Segmental assets comprise all assets which are necessary in order to earn the operating segmental result. These include work in progress, trade receivables and tangible and intangible assets. Segmental liabilities comprise all operating liabilities as well as other liabilities and other accruals. Non-allocated items include tax receivables and liabilities, and finance liabilities. Investments, depreciation and amortisation relate to the segmental assets.

Geographical segment

The following tables present revenue and profit information and certain asset and liability information regarding the SQS Group's geographical segments for the years ended 31 December 2002, 2003 and 2004.

Segmental reporting in respect of discontinued activities (which relate to the 'Rest of Europe') is given in note 6 to the financial statements.

<i>Year ended 31 December 2002</i>	<i>Germany</i>	<i>UK</i>	<i>Rest of</i>	<i>Total</i>
	<i>€000</i>	<i>€000</i>	<i>Europe</i>	<i>€000</i>
			<i>€000</i>	
Revenue				
External sales	39,912	6,547	4,491	50,950
Inter segment sales	1,480	54	383	1,917
	<u>41,392</u>	<u>6,601</u>	<u>4,874</u>	<u>52,867</u>
Result				
Segmental loss before financing result and tax	<u>(1,851)</u>	<u>(2,648)</u>	<u>(547)</u>	(5,056)
Consolidation adjustments				99
Loss before financing result and tax				(4,947)
Financing result				(1,210)
Income tax credit				2,263
Loss for the year				<u>(3,894)</u>
Assets and liabilities				
Segmental assets	<u>14,481</u>	<u>12,363</u>	<u>3,150</u>	29,995
Deferred tax claims				1,123
Consolidation adjustments				(301)
Total assets				<u>30,816</u>
Segmental liabilities	<u>6,611</u>	<u>3,568</u>	<u>521</u>	10,700
Non-allocated liabilities				18,911
Consolidation adjustments				(301)
Total liabilities				<u>29,310</u>
Other segment information				
Capital expenditure:				
Tangible fixed assets	530	59	66	655
Intangible fixed assets	1776	–	6	1782
	<u>1,230</u>	<u>128</u>	<u>218</u>	<u>1,576</u>
Depreciation				
Other non-cash expenses	<u>66</u>	<u>50</u>	<u>49</u>	<u>165</u>

2. Segmental reporting (continued)

Year ended 31 December 2003

	<i>Germany</i> €000	<i>UK</i> €000	<i>Rest of</i> <i>Europe</i> €000	<i>Total</i> €000
Revenue				
External sales	33,534	6,218	4,999	44,751
Inter segment sales	1,559	119	179	1,857
	<u>35,093</u>	<u>6,337</u>	<u>5,178</u>	<u>46,608</u>
Result				
Segmental loss before financing result and tax	<u>(2,174)</u>	<u>(23)</u>	<u>(538)</u>	(2,735)
Consolidation adjustments				<u>(90)</u>
Segmental loss before financing result and tax				(2,825)
Financing result				(903)
Income tax credit				<u>1,656</u>
Loss for the year				<u>(2,072)</u>
Assets and liabilities				
Segmental assets	<u>11,557</u>	<u>12,090</u>	<u>2,713</u>	26,360
Non-allocated assets				2,645
Consolidation adjustments				<u>(2,098)</u>
Total assets				<u>26,907</u>
Segmental liabilities	<u>7,553</u>	<u>1,460</u>	<u>2,448</u>	11,461
Non-allocated liabilities				17,995
Consolidation adjustments				<u>(2,098)</u>
Total liabilities				<u>27,358</u>
Other segment information				
Capital expenditure:				
Tangible fixed assets	244	–	35	279
Intangible fixed assets	1,746	35	25	1806
	<u>1,853</u>	<u>35</u>	<u>58</u>	<u>1,946</u>
Depreciation				
Other non-cash expenses	<u>45</u>	<u>23</u>	<u>12</u>	<u>80</u>

2. Segmental reporting (continued)

Year ended 31 December 2004

	<i>Germany</i> €000	<i>UK</i> €000	<i>Rest of</i> <i>Europe</i> €000	<i>Total</i> €000
Revenue				
External sales	34,144	7,761	6,763	48,668
Segment sales	2,440	–	168	2,608
	<u>36,584</u>	<u>7,761</u>	<u>6,931</u>	<u>51,276</u>
Result				
Segment result before financing result and tax	<u>2,973</u>	<u>332</u>	<u>291</u>	3,596
Consolidation adjustments				<u>(67)</u>
Segmental profit before financing result and tax				3,529
Financial result				(848)
Taxes on income				(987)
Profit for the year				<u>1,694</u>
Assets and liabilities				
Segmental assets	<u>11,563</u>	<u>12,899</u>	<u>2,418</u>	26,880
Non-allocated assets				2,224
Consolidation adjustments				<u>(1,766)</u>
Total assets				<u>27,338</u>
Segmental liabilities	7,424	2,049	2,393	11,866
Non-allocated liabilities				16,303
Consolidation adjustments				<u>(1,766)</u>
Total liabilities				<u>26,403</u>
Other segmental information				
Capital expenditure:				
Tangible fixed assets	155	38	37	230
Intangible fixed assets	1,434	–	3	1,437
Depreciation	<u>2,112</u>	<u>128</u>	<u>48</u>	<u>2,288</u>
Other non-cash expenses	<u>155</u>	<u>(10)</u>	<u>56</u>	<u>201</u>

3. Expenses

The Consolidated Income Statement presents expenses according to function. Additional information concerning the origin of these expenses, by type of cost, is provided below:

Cost of material

The cost of material in the year ended 31 December 2004 amounted to €2,273,000 (2003: €2,750,000; 2002: €3,480,000). Cost of material relates mainly to the procurement of outside services such as contract software engineers. In addition, certain project-related or internally used hardware is shown under cost of material.

Employee benefits expenses

	<i>31 December</i> <i>2004</i> €000	<i>31 December</i> <i>2003</i> €000	<i>31 December</i> <i>2002</i> €000
Wages and salaries	24,595	26,763	31,820
Social security contributions	3,936	4,474	4,865
Expenses for retirement benefits	425	497	465
	<u>28,956</u>	<u>31,734</u>	<u>37,150</u>

The expenses for retirement benefits include the change in pension accruals and other retirement provisions such as direct insurance and provident fund costs.

The average number of employees in the individual companies of the SQS Group were as follows:

	<i>2004</i> <i>No.</i>	<i>2003</i> <i>No.</i>	<i>2002</i> <i>No.</i>
SQS AG, Germany	334	387	453
SIM Group, England	52	50	77
SQS Netherlands	13	15	22
SQS Austria	14	12	9
SQS Spain	10	12	9
SQS Portugal	4	4	3
SQS Switzerland	5	1	–
Total	<u>432</u>	<u>481</u>	<u>573</u>

Depreciation

Depreciation charged in the year ended 31 December 2004 amounted to €2,288,000 (2003; €1,946,000 and 2002; €1,576,000). Of this, €1,432,000 (2003; €946,000 and 2002; €494,000) was attributable to the amortisation of development costs.

Rentals and leasing

Operating lease costs in connection with office space and equipment in 2004 amounted to €1,886,000 (2003 €1,890,000 and 2002 €2,207,000).

Provision is made against leases payable in relation to buildings no longer used by the SQS Group after taking into account any revenues which are recoverable as part of any sub-lease arrangements entered into (note 16).

4. Financial result

The financial result is comprised as follows:

	<i>31 December</i> <i>2004</i> <i>€000</i>	<i>31 December</i> <i>2003</i> <i>€000</i>	<i>31 December</i> <i>2002</i> <i>€000</i>
Interest income	31	10	57
Exchange rate gains	–	22	86
Total finance income	<u>31</u>	<u>32</u>	<u>143</u>
Interest payable	(855)	(881)	(1,350)
Exchange rate losses	(24)	(54)	(1)
Unrealised losses from the revaluation of securities as at the date of the financial statements	<u>–</u>	<u>–</u>	<u>(2)</u>
Total finance costs	<u>(879)</u>	<u>(935)</u>	<u>(1,353)</u>
Financial result	<u>(848)</u>	<u>(903)</u>	<u>(1,210)</u>

Finance income results from fixed deposit investments and investments in securities maturing in the short term which yield interest income, or securities negotiable at short notice. Interest payable relates to interest on bank liabilities and on the convertible bonds. Finance income and expenses are stated after foreign exchange rate gains and losses.

5. Taxes on earnings

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The calculation is based on the enacted or substantially enacted tax rates anticipated in the respective countries as at the realisation date. These are essentially based on the statutory provisions applicable or passed by the government at the date of the Financial Statements.

As a basic principle, SQS are liable to corporate income tax, the solidarity surcharge and trade tax. The results of the Company are subject to corporate income tax at 25 per cent. (2003 26.5 per cent. and 2002: 25 per cent.). A 5.5 per cent. solidarity surcharge is imposed on corporate income tax (2003 and 2002: 5.5 per cent.) The trade income tax amounts to 19 per cent. (2003 and 2002: 19 per cent.) of the taxable income and is deductible for the purpose of determining the taxable income.

The tax credit granted to persons liable to tax in Germany follows the so-called half-income system, i.e. only 50 per cent. (2003 and 2002: 50 per cent.) of the income from the company is liable to tax in the hands of the shareholder.

Consolidated income tax expense/ (income) are as follows:

	<i>31 December</i> <i>2004</i> <i>€000</i>	<i>31 December</i> <i>2003</i> <i>€000</i>	<i>31 December</i> <i>2002</i> <i>€000</i>
Current tax expense/ (income)	372	74	(1,073)
Adjustments in respect of current income tax of previous periods	(48)	(514)	(348)
Reversal of the value adjustment on deferred tax claims	(160)	–	–
Deferred tax	<u>603</u>	<u>(1,216)</u>	<u>(842)</u>
Taxes on income	<u>767</u>	<u>(1,656)</u>	<u>(2,263)</u>

5. Taxes on earnings (continued)

A reconciliation of income tax applicable to the accounting profit before income tax at the statutory income tax rate to the income tax expense in the Financial Information is as follows:

	<i>31 December</i> <i>2004</i> €000	<i>31 December</i> <i>2003</i> €000	<i>31 December</i> <i>2002</i> €000
Profit/ (loss) before tax multiplied by the standard rate of German income tax of 40 per cent.	1,072	(1,491)	(2,462)
Adjustments in respect of current income tax of previous years	(48)	(514)	(348)
Differential tax rates in respect of overseas subsidiaries	(77)	(13)	304
Expenditure not allowable for income tax purposes	14	19	105
Adjustments in respect of deferred taxes	(160)	230	–
Other	(34)	113	138
	<u>767</u>	<u>(1,656)</u>	<u>(2,263)</u>
At effective income tax rate of 29 per cent. (2003: 44 per cent., 2002: 37 per cent.)			

In the SQS Group, there are tax credit balances of approx. €2,000,000 (2003 and 2002: €2,000,000) which are partly available to the shareholders in the framework of distributions.

For the assessment of the deferred tax claims and debts, SQS applies a tax rate based on the current tax law in Germany of 40 per cent. (2003 and 2002: 40 per cent.) which takes into account corporation tax, the solidarity surcharge and trade tax. For the deferred tax claims of the overseas subsidiaries, the local tax rates are taken as the basis.

Deferred income tax relates to the following:

	<i>31 December</i> <i>2004</i> €000	<i>31 December</i> <i>2003</i> €000	<i>31 December</i> <i>2002</i> €000
Losses carried forward	1,861	2,424	1,123
Pension accruals	75	39	–
Other accruals	70	–	–
Deferred tax assets	<u>2,006</u>	<u>2,463</u>	<u>1,123</u>
Capitalised development costs	(557)	(573)	(395)
Trade receivables	(17)	(15)	(69)
Deferred tax liabilities	<u>(574)</u>	<u>(588)</u>	<u>(464)</u>
Net deferred tax assets	<u>1,432</u>	<u>1,875</u>	<u>659</u>

Deferred tax assets are recognised when it is considered probable that economic benefit will flow to the entity. Based on the earnings situation of the past and on the business expectations for the foreseeable future, value allowances are formed if this criterion is not fulfilled.

Where a company has suffered losses, deferred tax claims thereon are capitalised if the ability in the future to set off the losses with later income is permissible under the respective national provisions and their future taxable profits are regarded as probable.

€160,000 of the value adjustment made in the year ended 31 December 2003 for deferred tax claims on losses of the Dutch subsidiary was reversed in the year ended 31 December 2004. There are no longer any value adjustments on deferred tax claims in the SQS Group.

6. Disposal of subsidiaries

In the year ended 31 December 2004 the SQS Group's shares in the Spanish (Software Quality Systems SA) and Portuguese (SQS Portugal Lda) subsidiaries were sold resulting in a gain of €124,000 (included within general and administrative expenses). The disposal of the investment in the Spanish subsidiary was effective as of 30 September 2004. SQS Group's interest in the shares of the Portuguese subsidiary was reduced to 15 per cent. at 31 December 2004 and the commercial management handed over to the purchaser.

The major classes of assets and liabilities of the subsidiaries at the date of deemed disposal were as follows:

	<i>Spain</i> €000	<i>Portugal</i> €000
Fixed assets	48	8
Cash and cash equivalents	78	2
Other current assets	399	20
Total assets	<u>525</u>	<u>30</u>
Current liabilities	(150)	(155)
NET ASSETS/(LIABILITIES)	<u>375</u>	<u>(125)</u>
Shares disposed (% equity holding disposed of)	<u>50%</u>	<u>36%</u>

The net outflow of cash and cash equivalents arising from the de-consolidation is shown as follows:

	<i>Spain</i> €000	<i>Portugal</i> €000
Consideration	267	–
Book value of the de-consolidated cash and cash equivalents	78	2
Net cash outflow from the de-consolidation	<u>78</u>	<u>2</u>

Cash payment of €127,000 for the shares in Software Quality Systems SA is to be made by instalments on agreed dates. Further amounts of up to €140,000 are due, which the purchaser is entitled to provide by way of services which will be valued at normal market prices. These were included within receivables at 31 December 2004. Should these services not be accepted, the purchaser is obliged to pay €70,000 by 31 December 2005. The equity shares in SQS Portugal Lda was sold for €1.

Segmental information relating to the discontinued operations, which is presented in aggregate since neither disposal is material, is as follows:

<i>31 December 2004</i>	<i>Total</i> €000	<i>Spanish and Portuguese subsidiaries</i> €000	<i>Continuing operations</i> €000
Revenue	<u>48,668</u>	<u>752</u>	<u>47,916</u>
Profit for the year attributable to equity shareholders	<u>1,737</u>	<u>11</u>	<u>1,726</u>
Change in the level of funds affecting payments	<u>956</u>	<u>35</u>	<u>921</u>

6. Disposal of subsidiaries (continued)

		<i>Spanish and Portuguese subsidiaries</i>	<i>Continuing operations</i>
	<i>Total €000</i>	<i>€000</i>	<i>€000</i>
Revenue	44,751	1,089	43,662
(Loss) for the year	(2,132)	(156)	(1,976)
Change in the level of funds affecting payments	(3,696)	(122)	(3,574)
<i>Year ended 31 December 2002</i>			
	<i>Total €000</i>	<i>Spanish and Portuguese subsidiaries</i>	<i>Continuing operations</i>
	<i>€000</i>	<i>€000</i>	<i>€000</i>
Revenue	50,950	783	50,167
(Loss) for the year	(3,514)	(92)	(3,422)
Change in the level of funds affecting payments	(10)	(65)	55

7. Earnings per share

The earnings/(loss) per share presented in accordance with IAS 33 are shown in the following table:

<i>Undiluted earnings per share</i>	<i>31 December 2004 €000</i>	<i>31 December 2003 €000</i>	<i>31 December 2002 €000</i>
Profit/ (loss) for the year attributable to equity shareholders	1,737	(2,132)	(3,514)
Weighted average number of shares in issue	10,085,393	10,089,902	10,085,455
Undiluted and diluted profit/ (loss) per share €	0.17	(0.21)	(0.35)

Undiluted earnings per share are calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of shares in issue during 2004: 10,085,393 (2003: 10,089,902, 2002: 10,085,455) after adjusting for the impact of changes in the issued share capital in each year and of a 1.4:1 bonus share issue on 16 August 2005.

Diluted earnings per share are determined by dividing the profit for the year attributable to equity shareholders by the weighted average number of shares in issue plus the share equivalents which would lead to a dilution.

The directors consider that there are no share equivalents which would have a dilutive effect. The convertible bonds have no diluting effect under IAS 33 since the market value of the rights at the balance sheet dates are below the price of the conversion right or option price. Accordingly, there is no difference between undiluted earnings and diluted earnings per share.

8. Intangible assets

	<i>Goodwill</i>	<i>Software</i>	<i>Development</i>	<i>Other</i>	<i>Total</i>
	<i>€000</i>	<i>€000</i>	<i>costs</i>	<i>intangible</i>	<i>€000</i>
			<i>€000</i>	<i>assets</i>	
				<i>€000</i>	
Cost					
At 1 January 2002	12,030	1,036	–	79	13,145
Additions	–	152	1,481	149	1,782
Reclassification	–	80	–	(80)	–
Disposals	–	(17)	–	–	(17)
Adjustment (note 20)	(441)	–	–	–	(441)
Exchange adjustment	–	–	–	(12)	(12)
	<u>11,589</u>	<u>1,251</u>	<u>1,481</u>	<u>136</u>	<u>14,457</u>
At 31 December 2002	11,589	1,251	1,481	136	14,457
Additions	–	415	1,391	–	1,806
Disposals	–	(161)	–	(135)	(296)
	<u>11,589</u>	<u>1,505</u>	<u>2,872</u>	<u>1</u>	<u>15,967</u>
At 31 December 2003	11,589	1,505	2,872	1	15,967
Additions	–	21	1,415	–	1,436
	<u>11,589</u>	<u>1,526</u>	<u>4,287</u>	<u>1</u>	<u>17,403</u>
At 31 December 2004	11,589	1,526	4,287	1	17,403
Depreciation and amortisation					
At 1 January 2002	–	790	–	–	790
Charge for the year	–	42	494	80	616
Reclassification	–	80	–	(80)	–
On disposals	–	(5)	–	–	(5)
	<u>–</u>	<u>907</u>	<u>494</u>	<u>–</u>	<u>1,40</u>
At 31 December 2002	–	907	494	–	1,40
Charge for the year	–	278	946	1	1,225
On disposals	–	(80)	–	(1)	(81)
	<u>–</u>	<u>1,105</u>	<u>1,440</u>	<u>–</u>	<u>2,545</u>
At 31 December 2003	–	1,105	1,440	–	2,545
Charge in the year	–	187	1,432	1	1,620
	<u>–</u>	<u>1,292</u>	<u>2,872</u>	<u>1</u>	<u>4,165</u>
At 31 December 2004	–	1,292	2,872	1	4,165
Net book value					
At 31 December 2002	<u>11,589</u>	<u>344</u>	<u>987</u>	<u>136</u>	<u>13,056</u>
At 31 December 2003	<u>11,589</u>	<u>400</u>	<u>1,432</u>	<u>1</u>	<u>13,422</u>
At 31 December 2004	<u>11,589</u>	<u>234</u>	<u>1,415</u>	<u>–</u>	<u>13,238</u>

9. Property, plant and equipment

	<i>Freehold Land and Buildings €000</i>	<i>Office & business equipment €000</i>	<i>Assets in the course of construction €000</i>	<i>Total €000</i>
Cost				
At 1 January 2002	213	4,888	205	5,299
Exchange adjustment	–	296	–	296
Additions	4	651	–	655
Disposals	–	(867)	(198)	(1,065)
At 31 December 2002	217	4,961	7	5,185
Exchange adjustment	–	54	–	54
Additions	3	276	–	279
Reclassifications	–	7	(7)	–
Disposals	(4)	(159)	–	(163)
At 31 December 2003	216	5,139	–	5,355
On disposal of subsidiary undertakings	–	(160)	–	(160)
Exchange adjustment	–	(1)	–	(1)
Additions	–	230	–	230
Reclassifications	(3)	3	–	–
Disposals	–	(23)	–	(23)
At 31 December 2004	213	5,188	–	5,401
Depreciation				
At 1 January 2002	5	3,062	32	3,099
Charge for the year	9	915	36	960
On disposals	–	(808)	(68)	(876)
At 31 December 2002	14	3,169	–	3,183
Exchange adjustment	–	33	–	32
Charge for the year	5	716	–	721
On disposals	(5)	(7)	–	(12)
At 31 December 2003	14	3,911	–	3,925
On disposal of subsidiary undertakings	–	(87)	–	(87)
Exchange adjustment	–	(1)	–	(1)
Charge for the year	5	663	–	668
On disposals	–	(9)	–	(9)
At 31 December 2004	19	4,477	–	4,496
Net book value				
At 31 December 2002	203	1,792	7	2,002
At 31 December 2003	202	1,228	–	1,430
At 31 December 2004	194	711	–	905

10. Cash and cash equivalents

Cash and cash equivalents comprise cash and credit balances at banks which can be realised in the short term and which earn commercial rates of interest. In 2002, €1,130,000 related to short term deposits in money market funds.

11. Trade and other receivables

	<i>31 December</i> <i>2004</i> €000	<i>31 December</i> <i>2003</i> €000	<i>31 December</i> <i>2002</i> €000
Trade receivables	8,804	7,733	7,560
Amounts due from employees	54	79	130
Other debtors	144	509	298
Prepayments	240	179	255
	<u>9,242</u>	<u>8,500</u>	<u>8,243</u>

Trade receivables are stated at their recoverable amount, after provision for any likely bad debt. The balance sheet values of the receivables and the other assets correspond to the market values.

12. Work in progress

The work in progress shown in the balance sheet represents work already performed as at the balance sheet date which has not been billed due to the project status.

The valuation is made at the cost of production, including the anticipated profit margin.

13. Bank loans, overdrafts and other loans

The financial liabilities comprise a short term loan and loans which were taken out for the purpose of financing the acquisition of shares of SQS Group (UK) Limited (formerly SIM Group Limited).

	<i>31 December</i> <i>2004</i> €000	<i>31 December</i> <i>2003</i> €000	<i>31 December</i> <i>2002</i> €000
Current bank loans, overdrafts and other loans:			
Overdrafts	656	209	295
Mortgage relating to Dutch subsidiary	6	6	6
Bank loan	2,497	3,740	4,156
	<u>3,159</u>	<u>3,955</u>	<u>4,457</u>
Convertible bond	1,130	–	1,130
Current bank loans, overdrafts and other loans	<u>4,289</u>	<u>3,955</u>	<u>5,587</u>

13. Bank loans, overdrafts and other loans (continued)

	<i>31 December</i> <i>2004</i> <i>€000</i>	<i>31 December</i> <i>2003</i> <i>€000</i>	<i>31 December</i> <i>2002</i> <i>€000</i>
Non current bank and other loans:			
Bank loan due after more than one year	11,354	12,185	13,018
Mortgage relating to Dutch subsidiary	124	131	137
Long-term financial liabilities	<u>11,478</u>	<u>12,316</u>	<u>13,155</u>
Convertible bonds (long-term)	–	1,130	–
	<u>11,478</u>	<u>13,446</u>	<u>13,155</u>
Total current and non-current secured	<u>14,205</u>	<u>16,271</u>	<u>17,612</u>

The current account liabilities to banks are secured on the assets of the Company and those of its subsidiary undertakings.

Bank loans

The acquisition of SQS Group (UK) Limited was financed through a syndicated loan from Deutsche Bank AG and Kreissparkasse Koln with high redemption instalments for fast repayment of the loans. Until January 2005, repayment was in equal half-yearly instalments. During 2005, the repayment profile was renegotiated and past and prospective covenant breaches waived for the remainder of the term of the loan. Under the amended repayment agreement no repayment was made in January 2005: in the following six months of 2005, monthly repayments are €140,000 each, thereafter until 31 December 2005 monthly repayments are €322,000. From 1 January 2006, monthly repayments will be €208,000.

The interest rate for the acquisition loans was 6.08 per cent.; with effect from 1 March 2005, this was revised to 6.05 per cent., with effect from 1 July 2005, this was revised again to 5.85 per cent.. As security, the shares in SQS Group (UK) Limited were pledged in a pool contract jointly for the lenders. Furthermore, under an assignment agreement all current and future trade receivables of SQS Software Quality Systems AG were assigned to Deutsche Bank AG for and on behalf of the syndicate.

The bank loan is secured by way of a charge over the shares of SQS Group (UK) Limited and a charge over the Company's trade receivables.

Convertible bonds

In 2002 the Company issued 31,112 €36.22 6.76 per cent. interest bearing convertible bonds with an aggregate value of €1,130,000 to Gresham Computing plc ("Gresham"), the vendor of SQS Group (UK) Limited. The convertible bonds, including the interest to be paid thereon, rank equally with all other unsecured creditors and creditors who had not waived priority. The bond holder has the right to convert each convertible bond into Ordinary Shares. The bond holders' rights relating to these conditional shares are disclosed in note 17. The instalment due for redemption on 31 December 2004 was paid on 3 January 2005. On 12 August 2005 the terms of the convertible loan agreement were varied. The convertible loans are repayable, at the bondholder's option, on an Initial Public Offering of the Company's shares.

The interest rate and other conditions of the convertible bonds were agreed based upon market rates. The convertible bonds are accordingly classified as capital from outside sources.

14. Trade and other creditors

	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>€000</i>	<i>€000</i>	<i>€000</i>
Trade creditors	2,261	2,952	2,217
Other accruals and provisions (note 16)	67	75	127
Current liabilities under finance leases (note 15)	11	11	56
Social security	746	747	835
Wages and salaries	33	70	224
Personnel liabilities	2,785	1,950	3,246
Shareholder loans and interest (note 22)	500	513	–
Commission payable	50	–	–
Liabilities under non-recurrent restructuring contributions	–	326	–
Other liabilities	754	1,085	974
Deferred income	75	71	83
	<u>7,282</u>	<u>7,800</u>	<u>7,762</u>

15. Liabilities under leasing contracts

SQS Group (UK) Limited has entered into leases for various items of office and computer equipment. In relation to these items, SQS Group (UK) Limited bears all significant risks and rewards associated with ownership. These contracts are accordingly treated as finance leases.

At 31 December 2004 the book value of these items amounted to €100,000 (31 December 2003 €174,000, 2002 €120,000). These are shown within tangible fixed assets classified as office equipment. Aggregate interest expenses and depreciation amounted to €79,000 in 2004 (2003 €91,000, 2002 €78,000).

The minimum lease instalments for the remaining period of these contracts and their present value are as follows:

	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>€000</i>	<i>€000</i>	<i>€000</i>
Leasing payments due:			
within one year	11	12	64
between one and five years	–	95	14
Total leasing payments	<u>11</u>	<u>107</u>	<u>78</u>
Less: anticipated future interest payments	<u>–</u>	<u>(7)</u>	<u>(10)</u>
Present value of obligations under finance leases	<u>11</u>	<u>100</u>	<u>68</u>
of these, up to one year (note 14)	<u>11</u>	<u>11</u>	<u>56</u>
of these, between one and five years	<u>–</u>	<u>89</u>	<u>12</u>

16. Pensions and other accruals

	<i>Pension provision €000</i>	<i>Warranty costs €000</i>	<i>Vacant property €000</i>	<i>Total €000</i>
At 1 January 2002	259	325	–	584
Utilisation	–	(325)	–	(325)
Charge	–	127	–	127
Net charge/(credit)	33	–	–	33
At 31 December 2002	292	127	–	419
Utilisation	–	(127)	–	(127)
Charge	–	75	–	75
Net charge/(credit)	(28)	–	–	(28)
At 31 December 2003	264	75	–	339
Utilisation	–	(75)	–	(75)
Charge	–	28	184	212
Net charge/(credit)	59	–	–	59
At 31 December 2004	323	28	184	535
Of which, non current represent:				
At 31 December 2002	292	–	–	292
At 31 December 2003	264	–	–	264
At 31 December 2004	323	–	145	468

Pension provision

SQS Group pays contributions under different pension schemes by way of defined contributions. The levels of contributions are made in accordance with the statutory, financial and economic framework conditions of the respective country. For the statutory obligations, contributions are paid on a continuous basis.

In addition, the Company makes payments into a final salary scheme for certain senior employees. These employees will receive a monthly invalidity and old age pension from the age of 65. The surviving dependants of these employees will likewise receive an invalidity and old age pension at a lower amount. This is a funded, insurance backed scheme where existing reinsurance cover is pledged to the persons entitled to the benefits.

The final salary scheme has been valued in accordance with actuarial valuation report by SLPM Schweizer Leben Pensions Management GmbH (an independent actuary) dated 28 December 2004.

Pension charges have been determined in accordance with the following assumptions

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Rate of growth in pension liabilities	2.00%	2.00%	2.25%
Interest rate	5.50%	5.50%	6.00%
Salary increases	Nil	Nil	Nil
Retirement age	65	65	65
Rate of return on pension reinsurance	4.50%	5.00%	6.00%

16. Pensions and other accruals (continued)

The net benefit expense recognised in the consolidated income statement is as follows:

	<i>31 December</i> 2004 €000	<i>31 December</i> 2003 €000	<i>31 December</i> 2002 €000
Current service cost	29	29	25
Interest cost on benefit obligation	35	32	29
Expected return on plan assets	(17)	(16)	(17)
Net actuarial gains/losses)	57	(28)	37
Net benefit expense	<u>104</u>	<u>17</u>	<u>74</u>

The pension provision is made up as follows:

	<i>31 December</i> 2004 €000	<i>31 December</i> 2003 €000	<i>31 December</i> 2002 €000
Benefit obligations	759	641	618
Plan assets	(436)	(377)	(326)
Benefit liabilities	<u>323</u>	<u>264</u>	<u>292</u>

Warranty costs

From 1 January 2004, the SQS Group has changed its basis for estimating the costs of software product remediation provided under warranty. These costs were previously calculated based upon 20 per cent. of turnover relating to software products. Since January 2004, these costs (€28,000) have been provided calculated at 4 per cent. of related turnover. If the basis of the calculation had not changed, the charge for warranty costs in the year ended 31 December 2004 would have been €140,000.

Vacant properties

The SQS Group makes provision against property leases where the property is not occupied by members of the SQS Group. Provision is made net of expected rent receivable on the same property. €145,000 of the vacant property provision is regarded as being due in more than one year.

17. Share capital

At 31 December 2004 the subscribed capital amounted to € 4,204,126 (2003 and 2002: €4,204,126). It is divided into 4,204,126 (2003 and 2002 €4,204,126) individual registered shares with a nominal value of €1 each. Each share entitles the holder to one vote. No preference shares have been issued. The share capital is fully paid up.

Movement in the Company's subscribed share capital were as follows:

	<i>Issued</i> <i>Shares</i> <i>No.</i>	<i>Nominal</i> <i>Value</i> <i>€</i>
At 1 January 2002	4,196,776	4,196,776
Issue of shares	7,350	7,350
At 31 December 2002, 2003 and 2004	<u>4,204,126</u>	<u>4,204,126</u>

The Management Board was authorised to acquire up to a total of 10 per cent. of the nominal capital of the Company for purposes other than trading in securities. The quotation price has been fixed with regard to the upper and lower limit and any offer has to be issued to all shareholders. The authorisation expired on 31 July 2005.

17. Share capital (continued)

The Management Board is authorised, with the consent of the Supervisory Board, to offer the shares to employees or former employees of the SQS Group or to shareholders. The price at which these shares are offered must not be below the purchase price.

The Management Board is further authorised, with the consent of the Supervisory Board, to redeem the shares so purchased.

In 2004, the Management Board exercised this right to purchase 2,648 shares, which were acquired for an aggregate consideration of €95,000. In 2005, a further 200 shares were acquired.

The excess of the purchase price over the nominal value was charged to retained earnings.

The Management Board is empowered, up to 12 July 2010, to increase the share capital by a nominal amount of €3,500,000 against contributions in kind and by a nominal amount of €1,500,000 against contributions in kind or in cash.

On 12 April 2002 the company passed a resolution for the conditional increase in the share capital by an amount of up to €31,112, which, by operation of law, was increased to €74,668.80 in the course of the share capital increase by conversion of reserves resolved on 12 July 2005. The conditional capital serves as security for the convertible bonds (see below).

Convertible bonds with conversion rights

On 12 April 2002, the Management Board was authorised to issue 31,112, €36.32, 6.76 per cent. interest bearing convertible bonds, with a term of no longer than two years in connection with the agreement between the Company and Gresham for the sale and purchase of SQS (UK) Group Limited (“the convertible bonds”). These were issued on 15 April 2002.

The conversion rights are structured so that:

- the statutory pre-emption right of the shareholders was waived;
- the convertible bonds could be acquired exclusively by Gresham;
- each convertible bond entitles the holder to acquire a share provided the Company does not increase or reduce the equity capital or establish further conversion or option rights;
- the conversion right could be exercised on the earlier of twelve months following the quotation of the Company’s shares on a recognised stock exchange or, 1 August 2003; and
- the conversion right lapsed on the later of 31 December 2003 and twenty four months following the quotation of the Company’s shares on a recognised stock exchange.

On 29 October 2003 the contract was amended and the period for the exercise of the conversion right was extended to 30 June 2005. At the same time, the bond holders were granted the right to acquire two (instead of one) shares per convertible bond. Furthermore, the bond holders were granted an option to acquire a further 52,800 shares in the company (see below). The remaining provisions of the original agreement were unchanged.

The voting rights arising from the shares, where the conversion right has been exercised, are exercised on trust by Mr Bons and Mr van Megen, both members of the Management Board of SQS, in accordance with Gresham instructions. Where the Company’s shares are traded on a German stock exchange, Mr Bons and Mr van Megen are, for selected reserved transactions such as increases in capital or the purchase and sale of shares in subsidiaries, irrevocably empowered to exercise the voting rights.

Through the redemption of 15,556 convertible bonds on 3 January 2005, the corresponding right to convert into 31,112 shares was extinguished.

On 12 August 2005, the Company and Gresham entered into a further agreement to amend the terms of the convertible bonds.

17. Share capital (continued)

Conversion Rights

A revised repayment programme was agreed with the convertible bonds due to be repaid in equal instalments on a monthly basis with the final instalment due on 31 December 2005.

To the extent no repayment has been made, Gresham has the right to convert its debentures into 56,499 fully paid up Ordinary Shares (subject to any adjustments according to the original agreement); this conversion right can be exercised until 31 December 2005.

Options

In replacement of the options granted under the first amendment agreement, the Company has granted Gresham an option to purchase 52,800 Ordinary Shares at the lower of €4.167 per share, the Placing Price or the issue price at future share capital increases.

18. Employee participation programme

During 2001, shares were offered to certain senior executives of the SQS Group. In August 2001, 25 senior executives of SQS acquired shares. In December 2001, six senior executives of SQS Group (UK) Limited acquired shares under the same programme, effective 18 January 2002. No further share acquisition programmes or option rights for the acquisition of further shares under these programmes exist.

Development of the ownership of the shares of SQS:

	<i>Ordinary Shares</i>
As at 1 January 2002	4,196,776
Purchase of shares by senior executives of SQS Group (UK) Limited	<u>7,350</u>
As at 31 December 2002, 2003 and 2004	<u>4,204,126</u>

In addition 2,648 shares were repurchased by the Company from employees who left the Company. In addition, Mr Bons and Mr van Megen acquired 4,128 shares from employees who left. In 2005, the Company repurchased a further 200 shares.

The purchase price of the new shares was determined in accordance with a third party valuation report from an independent Wirtschaftsprüfer (the German equivalent of a Chartered Accountant).

Trustee administration and other important conditions

Both employee participation programmes have been implemented with contracts of the same content. The contract with the senior executives of SQS Group (UK) Limited, was adapted to the requirements of English law.

All shares issued within the framework of these two programmes are administrated on trust by Mr Bons, a member of the Management Board, for the shares offered to the German employees, and Mr. Bons and Mr. Bartlett, a director of SQS Group (UK) Limited, for the employees of SQS Group (UK) Limited. Rights and powers to issue instructions are laid down by contract uniformly for all shareholders who have acquired shares within the framework of this programme. The executives have irrevocably instructed the trustees, up until commencement of trading of the shares on a stock exchange, to exercise voting rights under the shares, and have also issued the irrevocable instruction to the trustees not to lodge any rescissory action, nullity action or positive declaratory action in relation to the resolution. In relation to third parties, the trustees appear as holders of the shares in their own name.

The trusteeship will not end before the expiration of six months from the date of admission of the shares for trading on a German stock exchange (lock-up-period) or, if applicable, a longer lock-up period if the employee consents to a longer lock-up-period. Furthermore, the trust relationship ends upon the employee leaving SQS Group (UK) Limited or through notice of termination.

18. Employee participation programme (continued)

Should the shares not have been admitted for trading on a German stock exchange by 31 July 2006 (for the German executive shareholders) or four years following the conclusion of the contract, i.e. by no later than 30 September 2005 (for the English executive shareholders), mutual rights of re-purchase and sale exist on the basis of a valuation report to be prepared then, however for no less than the original price (for the German executive shareholders).

19. Notes to the Statement of Cash flows

	2004	2003	2002
	€000	€000	€000
Net cash flow from operating activities			
Profit/(loss) before taxes	2,681	(3,728)	(6,157)
Add back depreciation and amortisation	2,288	1,946	1,576
Profit/(loss) on the sale of fixed assets	(14)	365	(12)
Other non-cash (expenses)/ income not affecting payments	(45)	65	(19)
Net interest income	824	871	1,293
	<hr/>	<hr/>	<hr/>
Operating profit/(loss) before changes in the net current assets	5,734	(481)	(3,319)
Decrease/(increase) in trade receivables and receivables from partly completed contracts not yet billed	(1,737)	698	10,561
Increase/(decrease) in work in progress, other assets and pre-paid expenses and deferred charges	338	(330)	1,252
Decrease/(increase) in trade creditors	(205)	735	(1,483)
Increase/(decrease) in remaining accruals	198	(52)	(583)
Increase/(decrease) in pension accruals	59	(28)	33
Increase/(decrease) in other liabilities and deferred income	656	(490)	(264)
	<hr/>	<hr/>	<hr/>
Cash flow from operating activities	5,043	52	6,197

20. Acquisition and disposal of subsidiaries and investments

In June 2001, the Company acquired 50 per cent. + 1 share of the shares in SQS Group (UK) Limited. On 13 March 2002, the Company acquired the remaining shares in accordance with its obligations under the share purchase agreement. The results of SQS Group (UK) Limited were fully consolidated from the date of acquisition in the year ended 31 December 2001. This acquisition was accounted for using the purchase method.

In the year ended 31 December 2002, SQS Group (UK) Limited reported turnover of €6,700,000 (2001: €17,200,000) and a loss of €1,900,000 (2001: Profit €1,800,000).

FTT Future Technology Team Gesellschaft für Entwicklung und Realisierung von Internetlösungen GmbH

The Company's 65.35 per cent. interest in FTT Future Technology Team Gesellschaft für Entwicklung und Realisierung von Internetlösungen GmbH was increased through the acquisition of the minority interest for €17,895 and, following this, it was merged with SQS AG with effect from 1 October 2002. The results of FTT Future Technology Team Gesellschaft für Entwicklung und Realisierung von Internetlösungen GmbH were already fully consolidated in 2001. The acquisitions was accounted for using the purchase method.

20. Acquisition and disposal of subsidiaries and investments (continued)

AQ-Group

In accordance with the acquisition agreement for Dutch AQ-Group, a €441,000 purchase price reduction was agreed in the year ended 31 December 2002. The two Dutch subsidiaries were merged during 2002. In the course of this, AQsoft B.V was re-named SQS Nederland B.V. and it acquired AQpro, through a merger. In addition, the Company subscribed €150,000 for new share capital.

SQS Portugal Lda

In Portugal, on 20 February 2002, SQS Portugal Lda was incorporated with a local partner. SQS Group held the majority of the shares (51 per cent.) until the disposal of 36 per cent. of the SQS Group's holding effective 31 December 2004 (see note 1). The SQS Group's capital contribution amounted to €76,500.

SQS Software Quality Systems (Schweiz) AG

In Switzerland, SQS Software Quality Systems (Schweiz) AG was incorporated on 19 September 2002. The issued and paid up equity of this company amounted to CHF 50,000 (€34,186).

A1 Professional Software GmbH

On 24 May 2002, the entire share capital of A1 Professional Software GmbH were sold. Prior to this, SQS received a distribution of €80,000. Consideration for the shares was €96,000.

21. Financial instruments

Under IAS 39 and IAS 32, a financial instrument is any contract which simultaneously gives rise to a financial asset at one company and a financial debt or an equity instrument at another. These may, for example, be cash in hand, bank balances, securities, receivables and liabilities or rights for acquisition or sale upon pre-determined conditions.

Financial instruments are, under IAS 39, sub-divided into the following categories:

- loans and receivables issued by the enterprise; and
- financial assets held for trade purposes.

Financial assets held for trade purposes

Financial assets available for sale are shown in the balance sheet at the settlement date, taking into account fluctuations in value between the trading and settlement dates, and recorded at their market value as at the balance sheet date. The income or expenses resulting therefore are recorded in the relevant period in the profit and loss account.

The book value of financial instruments, such as cash and cash equivalents, trade receivables and trade creditors, corresponds approximately to the current value of the financial instruments which, in turn, is based on the short-term period of the instruments. The book value of the liabilities of the company is approximated to the current value. This is determined by means of discounted cash flow analysis based on interest rates for similar types of loan.

In accordance with the policy for dealing with surpluses in cash and cash equivalents, SQS Group invests in low-risk, short-term securities. These are money market funds and securities with fixed-interest rates or time deposit investments at banks with excellent credit ratings. SQS Group attaches importance, within the framework of its risk management strategy, to security, short-term commitment and free availability of the surplus cash and cash equivalents.

21. Financial instruments (continued)

Policy on dealing with financial risks

Currency risks

SQS Group has operated almost exclusively in the Eurozone, Switzerland and the United Kingdom. No significant current foreign currency transactions are effected within the SQS Group (UK) Limited. Accordingly, the directors do not consider that the results of the SQS Group are subject to significant currency risks. In 2004, as in previous years, no significant exchange gains or losses arose from transactions in foreign currencies.

Interest risks

The SQS Group's exposure to market risk for changes in interest rates relates primarily to the SQS Group's long term bank loans arranged for the purposes of the acquisition of SQS Group (UK) Limited.

The SQS Group has also been financed from its cash flows and from shareholder debt financing and fixed rate convertible bonds issued to the vendor of SQS Group (UK) Limited. The shareholder debt financing has been in the form of loans with no fixed redemption date. The interest risks from financing the acquisition of SQS Group (UK) Limited through bank loans are only dependent upon interest rate developments in the European market.

The SQS Group has made no changes to its basic financing policy, and assumes that a formal overdraft facility will continue to remain unnecessary for the financing of the operating businesses, except for the existing facilities arranged by SQS Group (UK) Limited and SQS Gesmbh.

Credit risks

In dealing with credit risks, the SQS Group pursues a policy of concentrating on major credit worthy companies and the public sector. In these customer categories there are not, as a rule, any material credit risks.

22. Related party transactions

<i>Details of holdings in individual shares</i>	<i>31 Dec 2004</i>	<i>31 Dec 2003</i>	<i>31 Dec 2002</i>
Heinz Bons	1,699,344	1,697,280	1,697,280
Maria Helene Bons, nee Peters	388,560	388,560	388,560
Rudolf van Megen	1,699,344	1,697,280	1,697,280
Ilona van Megen, nee Rumsch	388,560	388,560	388,560
Total	<u>4,175,808</u>	<u>4,171,680</u>	<u>4,171,680</u>

In addition, Mr. Bons administers on trust, jointly with a senior executive of SQS and of SQS Group (UK) Limited, a further 25,670 shares in accordance with the terms of the employee participation programme.

The financial information include the financial statements of SQS and its subsidiaries which are listed in note 1.

Mr Bons and Mr van Megen received emoluments in the business year as members of the Management Board of €215,000 (2003: 196,000; 2002: 460,000) and of €215,000 (2003: 196,000; 2002: 460,000) respectively. The total emoluments of the Management Board members amounted in the business year 2004 to €643,000 (2003: €550,000; 2002 €1,072,000).

As a part of their remuneration for their Management Board responsibilities, the Company has granted a pension commitment to two Management Board members, as disclosed in Note 18.

22. Related party transactions (continued)

Mrs Bons and Mrs van Megen are employed by the Company and have received remuneration in a total of €11,000 (in the year 2003 €11,000 in the year 2002 €11,000).

Mr Bons and Mr van Megen, SQS's two principal shareholders and Directors, each provided a loan of €250,000 in 2003. The loans were provided at a fixed interest rate of 5.0 per cent.. At 31 December 2004 shareholder loans amounted to €500,000 (2003: €513,000, including accrued interest of €13,000).

Mr Bons and Mr van Megen also provided personal guarantees to Deutsche Bank AG and Kreissparkasse Koln in connection with the re-negotiation of these facilities.

Mr. Gawron holds a minority participation of one share in the Swiss subsidiary on trust for SQS since his office as president of the administrative board of this company makes this necessary under Swiss law.

SQS uses offices and business rooms which are owned by the closed real estate investment fund "Stollwerckstrasse GmbH & Co KG", Cologne and, since 2001, the real estate investment fund "Am Westhofer Berg GbR mbH", Cologne. The shares in the fund are held by employees and also Management Board members of SQS GmbH & Co KG. The lease terms are at normal market terms. The total expenses under these contracts amounted to €1,293,000 (2003: €1,113,000; and 2003: €1,268,000). Of the rentals due in 2004 payment of approximately €227,000 plus V.A.T. for three months was deferred at 31 December 2004.

23. Corporate governance

Management Board

Heinrich Hermann Bons	Graduate businessman, Frechen
René Gawron	Graduate businessman, Frankfurt am Main
Rudolf van Megen	Graduate businessman, Bergisch Gladbach

Supervisory board

Prof. Dr. Werner Mellis	Chairman, Königswinter, holder of the chair for Economic Information Systems at the University of Cologne
Jeremy Hamer	Chartered Accountant
Scott Hansen	Management consultant (independent), Brussels, Belgium

Prof. Dr. Mellis holds no further Supervisory Board mandates.

The total emoluments of the Management Board members in 2004 amounted to €643,000 (2003: €550,000; 2002: €1,072,000). Supervisory Board emoluments amounts to €33,000 in 2004, 2003 and 2002, of which the 2004 emoluments had not been paid by the end of 2004.

Members of the Management Board held 80.8 per cent. (in the previous years 2003 and 2002 80.7 per cent.) of the shares of SQS Software Quality Solutions AG at 31 December 2004.

24. Post balance sheet events

On 3 January 2005 15,556 €36.38 convertible bonds were redeemed (for an aggregate consideration of €564,000).

On 5 January 2005 the Company repurchased 200 of its own shares from a former employee.

On 29 June 2005 the terms of the banking facilities provided by Deutsche Bank and Kreissparkasse Koln for the purposes of financing the acquisition of SQS Group (UK) Limited were amended. As a result the repayment terms were revised as described in note 13.

On 16 August 2005 the authorised and issued share capital of the Company was increased following a cash subscription by the two principal shareholders for 74 shares. Immediately thereafter a further 5,885,880 shares were created and issued out of reserves by way of a 1.4:1 bonus issue to existing shareholders. Following this, the issued share capital was 10,090,080 €1 shares.

The Directors
SQS Software Quality Systems AG
Stollwerkstrasse 11
51149 Köln
Germany

14 September 2005

Dear Sirs

SQS Software Quality Systems AG

We report on the financial information set out in Part III – Section A. This financial information has been prepared for inclusion in the Admission Document dated 14 September 2005 of SQS Software Quality Systems AG on the basis of the accounting policies set out in note 1 to the financial information. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that schedule and for no other purpose.

Responsibilities

The Directors of SQS Software Quality Systems AG are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards as adopted for use in the EU.

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

Basis of opinion

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

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

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document dated 14 September 2005, a true and fair view of the state of affairs of SQS Software Quality Systems AG as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 1 and in accordance with International Financial Reporting Standards as described in note 1.

Declaration

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 Schedule Two of the AIM Rules.

Yours faithfully

Ernst & Young LLP

PART III

FINANCIAL INFORMATION ON THE GROUP

Section B – Financial information for the six months ended 30 June 2005

Consolidated Income Statements

for the six month periods ended 30 June

	Notes	2005 €000	2004 €000
<i>Revenue</i>			
Rendering of services	3	26,582	23,222
Cost of sales		17,049	14,945
Gross profit		9,533	8,277
Sales and marketing expenses		1,674	1,294
Research and development expenses		1,336	1,129
General and administrative expenses		4,401	3,730
Earnings before financing, tax, depreciation and amortisation		3,036	3,260
Depreciation and amortisation		(914)	(1,136)
Profit before tax and financing result		2,122	2,124
Financing result		(458)	(429)
Profit before taxes	3	1,664	1,695
Income tax (charge)		(628)	(738)
Profit for the period		1,036	957
Attributable to:			
Equity shareholders		1,036	969
Minority interests		–	(12)
Consolidated profit for the period		1,036	957
Earnings per share, undiluted and diluted (€)	4	0.10	0.10

Consolidated Balance Sheets

as at 30 June 2004, 31 December 2004 and 30 June 2005

	30 June 2005 €000	31 December 2004 €000	30 June 2004 €000
ASSETS			
Non current assets			
Intangible assets	13,346	13,238	13,539
Tangible assets	797	905	1,120
Deferred taxes	1,844	2,006	1,885
	<u>15,987</u>	<u>16,149</u>	<u>16,544</u>
Current assets			
Cash and cash equivalents	82	1,478	263
Trade and other receivables	12,533	9,242	10,313
Work in progress	177	251	535
Income tax receivable	159	218	175
	<u>12,951</u>	<u>11,189</u>	<u>11,286</u>
TOTAL ASSETS	<u>28,938</u>	<u>27,338</u>	<u>27,830</u>
EQUITY AND LIABILITIES			
Current liabilities			
Bank loans, overdrafts and other loans	3,432	3,159	7,091
Convertible bonds	530	1,130	1,130
Trade and other creditors	8,503	7,282	7,445
Tax accruals	655	525	155
Tax liabilities	1,619	1,787	1,202
	<u>14,739</u>	<u>13,883</u>	<u>17,023</u>
Non current liabilities			
Bank and other loans	10,995	11,478	9,399
Liabilities under leasing contracts	–	–	89
Pension and other accruals	487	468	272
Deferred taxes	706	574	658
	<u>12,188</u>	<u>12,520</u>	<u>10,418</u>
TOTAL LIABILITIES	<u>26,927</u>	<u>26,403</u>	<u>27,441</u>
Equity			
Share capital	4,201	4,202	4,202
Share premium	1,669	1,669	1,669
Statutory reserves	53	53	53
Foreign currency translation differences	191	143	158
Retained earnings	(4,103)	(5,132)	(5,900)
Equity attributable to equity shareholders	<u>2,011</u>	<u>935</u>	<u>182</u>
Minority interests	–	–	207
	<u>2,011</u>	<u>935</u>	<u>389</u>
TOTAL EQUITY AND LIABILITIES	<u>28,938</u>	<u>27,338</u>	<u>27,830</u>

Consolidated Cash Flow Statement

for the six month periods ended 30 June 2004 and 30 June 2005

	Notes	2005 €000	2004 €000
Net cash flow from operating activities	5	1,185	630
Cash effect of foreign exchange rate movements		3	(7)
Interest payments		(474)	(209)
Tax (payments)/refunds		(439)	17
Net cash flow from current business activities		<u>275</u>	<u>431</u>
Cash flows from investing activities			
Purchase of intangible assets		(812)	(873)
Purchase of tangible assets		(102)	(71)
Foreign currency result		(3)	–
Interest received		2	(24)
Net cash flow from investing activities		<u>(915)</u>	<u>(968)</u>
Cash flows from financing activities			
Proceeds from borrowings		510	3,136
Redemption of convertible bonds		(600)	–
Redemption/termination of leasing contracts		(714)	(2,917)
Net cash flow from financing activities		<u>(804)</u>	<u>219</u>
Change in the level of funds affecting payments		<u>(1,444)</u>	<u>(318)</u>
Changes in financial resources due to exchange rate movements		48	(21)
Cash and cash equivalents at the beginning of the period		<u>1,478</u>	<u>602</u>
Cash and cash equivalents at the end of the period		<u>82</u>	<u>263</u>

Consolidated Statement of Changes in Equity

for the six month periods ended 30 June 2004, 31 December 2004 and 30 June 2005

	Share capital €000	Share premium €000	Statutory reserves €000	Currency translation differences €000	Retained earnings €000	Equity attributable to equity shareholders €000	Minority interests €000	Equity €000
At 1 January 2004	4,204	1,669	53	179	(6,775)	(670)	219	(451)
Own shares cancelled	(2)	–	–	–	(94)	(96)	–	(96)
Currency translation differences	–	–	–	(21)	–	(21)	–	(21)
Profit for the period	–	–	–	–	969	969	(12)	957
At 30 June 2004	4,202	1,669	53	158	(5,900)	182	207	389
Currency translation differences	–	–	–	(15)	–	(15)	–	(15)
Profit for the period	–	–	–	–	768	768	(31)	737
Disposal of subsidiaries	–	–	–	–	–	–	(176)	(176)
At 31 December 2004	4,202	1,669	53	143	(5,132)	935	–	935
Own shares cancelled	(1)	–	–	–	(7)	(8)	–	(8)
Currency translation differences	–	–	–	48	–	48	–	48
Profit for the period	–	–	–	–	1,036	1,036	–	1,036
At 30 June 2005	4,201	1,669	53	191	(4,103)	2,011	–	2,011

Notes to the Financial Information at 31 December

1. Summary of Significant Accounting Policies

Basis of preparation

The interim financial information is based on the unaudited interim consolidated accounts of SQS Software Quality Systems AG ('SQS') for the six months ended 30 June 2005 which were prepared in all material respects, on a consistent basis with the financial information for the year ended 31 December 2004 set out in Part III, Section A.

The financial information has been prepared on the going concern basis. If the AIM Admission and Placing is unsuccessful, the Company's two largest existing shareholders have committed to defer repayment of amounts due to them and to defer future payments which are due to them, if necessary, to enable the Group to continue to trade for a period of at least 12 months from the date of the AIM Admission Document.

The following Standards, as revised in conjunction with the IASB's "Improvement Project," were applied for the first time in the interim financial information as at 30 June 2005:

- IAS 2 (Inventories)
- IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)
- IAS 10 (Events after the Balance Sheet Date)
- IAS 16 (Property, Plant and Equipment)
- IAS 17 (Leases)
- IAS 21 (The Effects of Changes in Foreign Exchange Rates)
- IAS 24 (Related Party Disclosures)
- IAS 27 (Consolidated and Separate Financial Statements)
- IAS 28 (Investments in Associates)
- IAS 31 (Interests in Joint Ventures)
- IAS 32 (Financial Instruments - Disclosure and Presentation)
- IAS 33 (Earnings per Share)
- IAS 39 (Financial Instruments - Recognition and Measurement)
- IAS 40 (Investment Property)

Additionally the following new Standards have been applied for the first time in the interim financial information as at 30 June 2005:

- IFRS 2 (Share-based Payment)
- IFRS 4 (Insurance Contracts)
- IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)
- IFRS 6 (Exploration for and Evaluation of Mineral Resources)

The effect of applying the above Standards on the interim financial information as at 30 June 2005 was not material.

The interim financial information has been prepared on the historical cost basis. The interim financial information is presented in Euros and amounts are rounded to the nearest thousand (€000) except when otherwise indicated.

Basis of consolidation

The interim financial information comprises the financial statements of SQS Software Quality Systems AG and its subsidiaries as at 30 June. Subsidiary company financial statements are prepared on a consistent basis to those of other SQS Group companies.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

1. Summary of Significant Accounting Policies (continued)

Subsidiaries are consolidated from the date on which control is transferred to the SQS Group and cease to be consolidated from the date on which control is transferred out of the SQS Group.

Taxes

Income taxes are calculated on the basis of the tax rates which are expected for the full year 2005.

2. Major events during the period ended 30 June 2005

Markets and general business

The SQS Group's turnover increased by 14 per cent. compared with the first half year of 2004. In the UK and the Rest of Europe turnover increased by 41 per cent. and 114 per cent. respectively. The increase in turnover in Rest of Europe was due principally to growth in our Swiss market.

There are no major seasonal factors affecting the SQS Group's business.

Financing

Details relating to the renegotiations of the terms of the convertible bonds and of the Company's bank loans are set out in notes 13, 17 and 24 to Part III, Section A of the Admission Document.

Repurchase of own shares

On 5 January 2005, the Company repurchased 200 shares from a former employee. Following this the Company held 2,648 of its own shares. The excess of consideration over the nominal value of the shares was charged to retained earnings.

3. Segmental reporting

The SQS Group's segmental reporting is in accordance with IAS 14. The directors consider that the SQS Group has one class of business, being consultancy and testing for software quality assurance. Other activities such as the provision of seminars and training or the sale of software products serve the primary business purpose and are accordingly not regarded as segments requiring separate disclosure. Accordingly, the geographical segments in Germany, the UK and other European countries ('Rest of Europe') are defined as the primary reporting segments.

Transactions between the segments or legal entities are made on an arms length basis. Centrally incurred external costs relating to subsidiaries are recharged to the subsidiaries affected. Cost allocations between the segments or legal entities are not charged.

Geographical segment

The following tables present revenue and profit information regarding the SQS Group's geographical segments for the six months periods ended 30 June 2004 and 30 June 2005.

Segmental reporting in respect of subsidiaries in Spain and Portugal which were disposed of in the second half of 2004 (which are reported within the 'Rest of Europe') has not been provided on the basis that it is not material and full disclosure of the annual results and assets of these subsidiaries is provided in note 6 to the financial information in Part III, Section A.

3. Segmental reporting (continued)

Six month period ended 30 June 2005

	<i>Germany</i> €000	<i>UK</i> €000	<i>Rest of</i> <i>Europe</i> €000	<i>Total</i> €000
Revenue				
External sales	17,222	4,482	4,878	26,582
Inter segment sales	1,654	–	–	1,654
	<u>18,876</u>	<u>4,482</u>	<u>4,878</u>	<u>28,236</u>
Result				
Segmental profit before financing result and tax	<u>1,558</u>	<u>299</u>	<u>265</u>	2,122
Consolidation adjustments				–
Profit before financing result and tax				<u>2,122</u>
Financing result				(458)
Income tax charge				(628)
Profit for the period				<u>1,036</u>

Six month period ended 30 June 2004

	<i>Germany</i> €000	<i>UK</i> €000	<i>Rest of</i> <i>Europe</i> €000	<i>Total</i> €000
Revenue				
External sales	17,765	3,181	2,276	23,222
Inter segment sales	1,092	–	–	1,092
	<u>18,857</u>	<u>3,181</u>	<u>2,276</u>	<u>24,314</u>
Result				
Segmental profit/(loss) before financing result and tax	<u>2,146</u>	<u>16</u>	<u>29</u>	2,191
Consolidation adjustments				(67)
Profit before financing result and tax				<u>2,124</u>
Financing result				(429)
Income tax charge				(738)
Profit for the period				<u>957</u>

4. Earnings per share

The earnings/(loss) per share presented in accordance with IAS 33 are shown in the following table:

<i>Undiluted earnings per share</i>	<i>Six month period to 30 June 2005 €000</i>	<i>Six month period to 30 June 2004 €000</i>
Profit/(loss) for the year attributable to equity shareholders	1,036	969
Weighted average number of shares in issue	10,142,503	10,083,555
Undiluted and diluted profit/(loss) per share €	0.10	0.10

Undiluted earnings per share are calculated by dividing the profit for the six month period attributable to equity shareholders by the weighted average number of shares in issue during the six month period ended 30 June 2005 (10,142,503; 2004: 10,083,555) after adjusting for the impact of changes in the issued share capital in each year and of a 1.4:1 bonus share issue on 16 August 2005.

Diluted earnings per share are determined by dividing the profit for the six month period attributable to equity shareholders by the weighted average number of shares in issue plus the share equivalents which would lead to a dilution.

The directors consider that there are no share equivalents which would have a dilutive effect. The convertible bonds have no diluting effect under IAS 33 since the market value of the rights at the balance sheet dates are below the price of the conversion right or option price. Accordingly, there is no difference between undiluted earnings and diluted earnings per share.

5. Notes to the Statement of Cash flows for the six month periods ended 30 June

	<i>2005 €000</i>	<i>2004 €000</i>
Net cash flow from operating activities		
Profit/(loss) before taxes	1,664	1,695
Add back depreciation and amortisation	909	1,136
Profit/(loss) on the sale of fixed assets	5	–
Other non-cash (expenses)/income not affecting payments	134	7
Net interest income	455	422
Operating profit/(loss) before changes in the net current assets	3,167	3,260
Decrease/(increase) in trade receivables and receivables from partly completed contracts not yet billed	(2,817)	(1,788)
Increase/(decrease) in work in progress, other assets and pre-paid expenses and deferred charges	(247)	(339)
Decrease/(increase) in trade creditors	(18)	(989)
Increase/(decrease) in remaining accruals	(1)	280
Increase/(decrease) in pension accruals	20	8
Increase/(decrease) in other liabilities and deferred income	1,081	198
Cash flow from operating activities	1,185	630

6. Post balance sheet events

On 12 July 2005 the shareholders resolved to create authorised capital of €5,000,000.

On 12 August 2005 the Company agreed to repay the amounts remaining in respect of the convertible bonds between 30 June 2005 and 31 December 2005 in monthly instalments and the conversion ratio for each debenture was increased to 3.632 ordinary shares, representing a total of 56,499 ordinary shares. The option holders were also granted options over 22,000 shares granted under a new option agreement which replaced the existing agreement, at the lower of €10.00 or the IPO price, exercisable prior to 31 July 2008.

On 16 August 2005 the authorised and issued share capital of the Company was increased following a cash subscription by the two principal shareholders for 74 shares. Immediately thereafter a further 5,885,880 shares were created and issued out of reserves by way of a 1.4:1 bonus issue to existing shareholders. Following this, the issued share capital was 10,090,080 €1 shares.

7. The interim financial information does not constitute financial statements.

PART IV

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP

The unaudited pro forma statement of net assets has been prepared, on the basis of the following notes, to illustrate the effect of the Placing on the SQS Group's net assets had the Placing occurred as at 30 June 2005. It has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the SQS Group's financial position.

Basis of preparation

The net assets of the SQS Group as at 30 June 2005 have been extracted without material adjustment from the unaudited interim financial information for the period ended 30 June 2005 set out in Section B of Part III of this document.

	<i>30 June</i>	<i>Adjustments</i>	<i>Pro forma</i>
	<i>2005</i>	<i>Note 1</i>	<i>Net Assets</i>
	<i>€000</i>	<i>€000</i>	<i>€000</i>
ASSETS			
Non current assets	15,987	–	15,987
Current assets	12,951	7,866	20,817
Current liabilities	(14,739)	500	(14,239)
Non current liabilities	(12,188)	6,000	(6,188)
NET ASSETS	2,011	14,366	16,377

Notes:

- The adjustments reflect the net increase in cash, being receipt of the net proceeds of the Placing of €14,366,000 after estimated expenses of €1,632,000 and after settlement of €500,000 shareholder loans and a €6,000,000 repayment of bank loans. In summary, the adjustment to cash comprises:

	<i>€000</i>
Gross proceeds of the placing	15,998
Estimated expenses	(1,632)
	14,366
Repayment of shareholder loans	(500)
Repayment of bank loans	(6,000)
	7,866

- The estimated expenses of the Placing and Admission of £1,100,000 have been translated using the closing mid-market spot exchange rate on 13 September 2005 of €1.4835 : £1, being the latest practicable date prior to the publication of this Admission Document.
- No account has been taken of changes in the financial position of the Company since 30 June 2005; and
- The unaudited pro forma statement of net assets does not constitute financial statements within the meaning of section 240 of the Companies Act.

PART V

ADDITIONAL INFORMATION

1 Responsibility statement of the Directors

The Directors whose names are set out on page 7 of this admission document accept responsibility for the information contained in this admission document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

2 The Company's incorporation and status

- 2.1 The Company was incorporated under the laws of Germany on 24 March 1982 under the name SQS Gesellschaft für Software-Qualitätssicherung mbH ("SQS GmbH") and was registered at the commercial register of the local court (*Amtsgericht*) of Cologne on 30 April 1982 under number HRB 12764 as a private company with limited liability (*Gesellschaft mit beschränkter Haftung*).
- 2.2 On 17 March 2000, the shareholders resolved to re-register the Company as a stock corporation ("*Aktiengesellschaft*" or "AG") and the Company was renamed "SQS Software Quality Systems AG". The transformation was registered with the commercial register of the local court in Cologne, Germany, on March 31 2000 under No. HRB 12764.
- 2.3 The liability of the shareholders of the Company is limited to the amount of the contribution payable for the shares.
- 2.4 The registered office of the Company is at Stollwerckstrasse 11, 51149, Cologne, Germany.
- 2.5 The principal activities of the Company are that of a holding company and the provision of consultancy services in the areas of integration, improvement, and development of information and communication systems, including software quality assurance.

3 The Company's share capital

- 3.1 At the date of incorporation, the Company had a stated share capital (*Stammkapital*) of DM 50,000 divided into two shares with a nominal value of DM 22,500 each and two shares with a nominal value of DM 2,500 each which were issued against cash contributions. For a description of the types of share capital and their uses, see paragraph 5.2 below.
- 3.2 Since its incorporation the following changes in the Company's share capital have taken place:
 - 3.2.1 On 6 February 1987, the Company's stated share capital (*Stammkapital*) was increased from DM 50,000 to DM 200,000 by way of cash contributions. The capital increase was registered with the commercial register of the local court of Cologne on 9 April 1987.
 - 3.2.2 On 21 December 1998, the company's share capital (*Stammkapital*) was increased from DM 200,000 to DM 1,000,000 by way of contributions in kind. The capital increase was registered with the commercial register of the local court of Cologne on 23 February 1999.
 - 3.2.3 On 15 December 1999, the Company's share capital was converted into Euro. The stated capital (*Stammkapital*) after conversion amounted to €511,291.88. Simultaneously, it was decreased from €511,291.88 to €511,260 and increased from €511,260 to €521,460 by way of cash contributions. Immediately, therefore the share capital was divided into 521,460 no-par value bearer shares with an imputed value of €1.00 per share. The conversion and the capital decrease and increases were registered with the commercial register of the local court of Cologne on 10 January 2000.

- 3.2.4 On 17 May 2001, the Company created authorised share capital (*Genehmigtes Kapital*) in the amount of €10,000 and authorised the Management Board, subject to the consent of the Supervisory Board, to increase the registered share capital (*Grundkapital*), on one or more occasions until 31 December 2001, by an aggregate of amount not exceeding €10,000.
- 3.2.5 On 24 August, 2001, pursuant to the authority referred to at paragraph 3.2.4 above, the Management Board, with the consent of the Supervisory Board, increased the registered share capital (*Grundkapital*) from €521,460 by €3,137 to €524,597 by way of cash contributions and contributions in kind. The capital increase was registered with the commercial register of the local court of Cologne on 6 September 2001.
- 3.2.6 On 24 August 2001, following a capitalisation of some of the Company's reserves (*Gewinnrücklagen*), the Company's registered share capital (*Grundkapital*) was increased from €524,597 to €4,196,776. The capital increase was registered with the commercial register on 6 September 2001.
- 3.2.7 On 4 December 2001, the Company created new authorised share capital (*Genehmigtes Kapital*) in substitution for the authority granted pursuant to the resolution passed on 17 May 2001. The shareholders authorised the Management Board, subject to the consent of the Supervisory Board, to increase the Company's registered share capital (*Grundkapital*), on one or more occasions until 1 December 2006, by up to a maximum of €250,000. This authorisation was registered with the commercial register of the local court of Cologne on 14 December 2001.
- 3.2.8 On 18 January 2002, the Management Board, with the consent of the Supervisory Board, resolved to increase the registered share capital (*Grundkapital*) from €4,196,776 to €4,204,126 by way of cash contributions pursuant to the authorisation dated 4 December 2001. The capital increase was registered with the commercial register of the local court of Cologne on 28 March 2002.
- 3.2.9 On 12 April 2002, the Company created conditional share capital (*Bedingtes Kapital*) amounting to €31,112 in relation to an agreement dated 23 May 2001 (as amended by variation agreements dated 15 April 2002 and 11 and 12 August 2005) between the Company and Gresham Computing plc ("Gresham") for the sale and purchase of 321,200 of the 642,401 shares in SIM Group Limited (now called SQS Group (UK) Limited) then in issue.
- 3.2.10 On 12 July 2005, the Company's shares were converted from bearer to registered form. The conversion was registered with the commercial register of the court of Cologne on 16 August 2005.
- 3.2.11 On 12 July 2005, the registered share capital (*Grundkapital*) of the Company was increased from €4,204,126 to €4,204,200 by way of cash contributions and from €4,204,200 to €10,090,080 by capitalisation of some of the Company's reserves. The capital increase was registered with the commercial register of the local court of Cologne on 16 August 2005.
- 3.2.12 The registered share capital (*Grundkapital*), authorised share capital (*Genehmigtes Kapital*) and conditional share capital (*Bedingtes Kapital*) of the Company as at the date of this document and as it will be immediately following completion of the Placing is as follows:

Existing

<i>Description</i>	<i>Registered and Issued Share Capital (Grundkapital)</i>		<i>Authorised Share Capital (Genehmigtes Kapital)</i>	<i>Conditional Share Capital (Bedingtes Kapital)</i>
	<i>Number</i>	<i>€</i>	<i>€</i>	<i>€</i>
Ordinary Shares	10,090,080	10,090,080	5,000,000	74,668.80

Following the Placing

<i>Description</i>	<i>Registered and Issued Share Capital (Grundkapital)</i>		<i>Authorised Share Capital (Genehmigtes Kapital)</i>	<i>Conditional Share Capital (Bedingtes Kapital)</i>
	<i>Number</i>	<i>€</i>	<i>€</i>	<i>€</i>
Ordinary Shares	15,763,080	15,763,080	5,000,000	74,668.80

3.3 Save as disclosed in this document:

3.3.1 no share or loan capital of the Company has been issued for cash or other consideration and no such issues are proposed;

3.3.2 no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of the Company; and

3.3.3 no share or loan capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option and there are no outstanding convertible securities of the Company issued or to be issued save that, pursuant to the terms of the agreement referred to at paragraph 3.2.9 above, the Company issued convertible bonds to Gresham. The period for the conversion of the convertible bonds into shares in the Company ends on 31 December 2005. The open amount to be repaid is approximately £280,000 to be paid in equal monthly instalments with the final payment due on 31 December 2005.

3.4 There are no listed or unlisted securities issued by the Company not representing share capital.

3.5 The Ordinary Shares are in registered form. German law permits the holding of the Company's shares through CREST and the Company's Articles do not alter this provision. Evolution Securities will apply on behalf of the Company for the DIs (representing the Ordinary Shares) to be admitted to CREST with effect from Admission. The register of holders of Ordinary Shares will be kept by Computershare on behalf of the Company.

4 Subsidiaries

The Company has the principal subsidiary undertakings referred to below, all of which (except where stated below) are directly or indirectly wholly owned and are incorporated, and operating principally, in the jurisdictions indicated in the table below.

<i>Company name</i>	<i>Registered office</i>	<i>Location of business</i>	<i>Activities</i>	<i>Proportion of voting rights held by the Company of Group</i>	<i>Number and class of shares held by the Company or Group</i>
Software Quality Systems (SQS) Nederland B.V.	Van Voordenpark 5A, 5301 KP Zaltbommel, The Netherlands	Netherlands	Software testing and consultation	90.5%	163,728
Software Quality Systems (Schweiz) AG	Industriestrasse 7, Zug, Switzerland	Switzerland	Software testing and consultation	100%*	100 registered shares in the nominal amount of CHF 1,000*

*each member of the board of SQS CH holds one share in SQS CH on trust for SQS AG, as is required by Swiss law

<i>Company name</i>	<i>Registered office</i>	<i>Location of business</i>	<i>Activities</i>	<i>Proportion of voting rights held by the Company of Group</i>	<i>Number and class of shares held by the Company or Group</i>
SQS Software Quality Systems Ges.mbH	Vienna, Austria, Nussdorfer Strasse 20 / 16, 1090 Vienna, Austria	Austria	Software testing and consultation	100%	one share of EUR 35,000
SQS Group (UK) Limited (formerly SIM Group Limited)	Albion House Chertsey Road Woking Surrey GU21 1BE	United Kingdom	Software testing and consultation	100	642,401
SQS Software Quality Systems (UK) Limited (formerly Software Integration Management Limited)	Albion House Chertsey Road Woking Surrey GU21 1BE	United Kingdom	Software testing and consultation	100	100
Systems Integration Management Limited (formerly SQS Software Quality Systems (UK) Limited)	Albion House Chertsey Road Woking Surrey GU21 1BE	United Kingdom	Dormant	100	2

5 Articles of association, rights attaching to the Ordinary Shares and governance of the Company

The Articles include specific provisions relating to matters which are typically dealt with in the articles of a German AG, including provisions relating to the following matters:

- the Company's objects;
- the Company's share capital;
- the Management Board;
- the Supervisory Board;
- meetings of the shareholders and shareholders' resolutions; and
- financial statements and distribution of profits.

In addition, provisions of German statutory law apply which relate, *inter alia*, to:

- representation of the Company;
- corporate governance;
- rights, duties and liability of members of the Management Board and the Supervisory Board;
- corporate actions;
- shareholders' rights; and
- distribution of assets on a winding-up.

The relevant German statutory provisions are also dealt with below.

5.1 A German Stock Corporation does not have a separate memorandum of association. Instead, the Company's objects are set out in its Articles. The Articles, which were adopted on 17 March 2000 and last amended on 12 July 2005, include provisions to the effect that the Company's objects are to provide consulting services in the area of integration, improvement and development of information and communication systems, including software quality testing and assurance; to manage companies active in these business areas; to incorporate, purchase and sell as well as to hold interests in companies in Germany and abroad as part of the management of a group of companies; and to undertake any transaction relating, directly or indirectly, to SQS's objectives. SQS may establish branches and may outsource or assign its business in whole or in part to affiliated companies.

5.2 The Company's share capital

The Company has a stated share capital (*Grundkapital*), authorised share capital (*Genehmigtes Kapital*) and contingent share capital (*Bedingtes Kapital*).

5.2.1 Stated share capital (*Grundkapital*)

The Company has a stated share capital of €10,090,080, which is divided into 10,090,080 non-par value shares currently in issue. The stated share capital can only be increased or decreased by shareholder resolution. According to German statutory law, shareholders generally have pre-emption rights in the event of a share capital increase. Such pre-emption rights may be excluded in certain cases.

5.2.2 Authorised capital (*Genehmigtes Kapital*)

In addition to the stated share capital, the Company has an authorised capital of €5,000,000. This authorised capital allows the Management Board to increase the stated share capital of the Company until 12 July 2010 by up to €5,000,000 by one or more issuances of new registered non-par value shares against a combination of cash contributions or contributions in kind. The Management Board requires the consent of the Supervisory Board for such share capital increase and no further shareholder resolutions are required. The pre-emption rights of the shareholders may be excluded in relation to issues of shares pursuant to such authority.

5.2.3 Contingent share capital (*Bedingtes Kapital*)

In addition to the stated share capital and the authorised share capital, the Company has a contingent share capital of €74,668.80. This contingent capital determines the maximum amount the stated share capital will increase by if all holders of option rights, if any, exercise all of their option rights. If the holders of such options exercise their option rights, the new shares will be issued automatically; no further shareholder resolutions are required.

5.3 Shares

5.3.1 Type of shares, voting rights

All shares are registered non-par value shares with a calculated, imputed nominal value of €1.00 per share. There is only one class of shares, namely ordinary shares, and there are no preferred shares. Each share carries the rights to one vote at shareholders' meetings.

5.3.2 Share certificates

According to the Articles, shareholders are not entitled to request that share certificates or similar certificates are issued to them. The Company, however, is authorised to issue share certificates that represent individual shares or that represent a number of shares. The form and content of share certificates and similar certificates is determined by the Management Board with the approval of the Supervisory Board.

5.3.3 Transfer and issue of shares

The Articles do not contain any limitations on the transfer of shares.

Subject to certain exceptions (such as prior authorisation by the Shareholders or if the amount falls below the required threshold under the AktG or for some other compelling reason) any new issue of shares in the Company must first be offered to existing Shareholders *pro rata* to their then holding of shares in the Company.

5.3.4 Redemption and conversion of Shares

The Articles do not contain provisions on the redemption or conversion of shares. Accordingly, the statutory provisions apply. Shareholders do not have a right to request a redemption or conversion of their shares.

5.4 Dividends and return of capital

Shareholders participate in the Company's profits *pro rata* to their shareholding in the Company's stated share capital. All shares are entitled to the same portion of the profits of the Company; there are no preferred shares or preferred profit rights.

If new shares are issued during a fiscal year, such new shares participate in the profits on a *pro-rata-temporis* basis (Section 60 AktG - German Stock Corporation Act). Note, however, in deviation from the statutory provision of Section 60 AktG, the Articles permit the participation of newly issued shares in profits of the Company to be dealt with other than on a *pro-rata-temporis* basis.

Dividend payments and/or entitlements are non-cumulative.

On a winding-up of the Company, Shareholders shall be entitled to participate in any distribution of assets (after payments have been made to creditors and third parties who rank ahead of Shareholders in the relevant order of priority) *pro rata* to their holdings of shares in the Company.

5.5 Corporate Bodies

5.5.1 Overview

The corporate bodies of the Company are the Management Board (*Vorstand*), the Supervisory Board (*Aufsichtsrat*) and the shareholders' meeting (*Hauptversammlung*).

Unlike under English law, German stock corporations have a two-tier board system, consisting of a Management Board and a Supervisory Board. Whilst the Management Board is in charge of running the business of the Company and rendering both day-to-day decisions as well as general policy and other material decisions, the Supervisory Board has a supervisory function. The rights and obligations of the Management Board and the Supervisory Board are mainly dealt with by mandatory statutory provisions. These statutory provisions are supplemented by the provisions of the Articles and the internal regulations (see paragraphs 5.6 and 5.7 below).

The powers of the shareholders' meeting are also dealt with by mandatory statutory provisions and are supplemented by the provisions of the Articles.

5.6 The Management Board (*Vorstand*)

5.6.1 Composition of the Management Board

The Articles provide that the Management Board shall have at least two members and that the exact number of members shall be determined by the Supervisory Board. Furthermore, the Supervisory Board may designate a chairman or spokesman and a deputy-chairman or deputy-spokesman of the Management Board.

5.6.2 Management Board

Pursuant to mandatory statutory law, the Management Board is responsible for the management of the Company. Under German law, neither the Supervisory Board nor the shareholders are entitled to give instructions to the Management Board regarding the management of the Company. As an exception to this general rule, the shareholders' meeting

may give instructions to the Management Board if the Management Board has requested such instructions. Whilst the Management Board usually has no duty to request instructions from the shareholders, there are a few exceptions where the Management Board is required to obtain shareholders' instructions regarding certain events that are of material importance to the business of the Company, such as the sale of material subsidiaries. However, such duty applies only in exceptional circumstances.

All members of the Management Board are jointly responsible for all management action, even though individual members of the Management Board may be primarily in charge of specific business areas.

According to the Articles, the Management Board makes decisions according to a simple majority of votes cast, unless a different majority is required by law, the Articles or the internal regulations. If the Management Board consists only of two members, a tied vote is considered a rejection of the resolution.

5.6.3 Representation of the Company

The Articles provide that, as a principle rule, the Company is represented by two members of the Management Board jointly or jointly by one member of the Management Board together with a statutory representative (*Prokurist*). If there is only one member of the Management Board, this member represents the Company alone. As an exception to this general rule, the Supervisory Board is authorised to grant members of the Management Board the power to represent the Company by sole signature; the Supervisory Board has exercised this power and has granted each of Heinz Bons and Rudolf van Megen the power to represent the Company by sole signature.

According to mandatory statutory law, the Company is represented by the Supervisory Board if and to the extent that the Company enters into any transactions with members of the Management Board.

Furthermore, according to Section 181 of the German Civil Code, members of the Management Board are not able to represent the Company if they also act as the representative of a third party in the same transaction. The Articles expressly state that the Supervisory Board may waive this restriction on the power of representation of the members of the Management Board either individually or generally and this restriction has been waived in respect of Heinz Bons and Rudolf van Megen. There are no other statutory limitations on the power of the management to represent the Company. This means, for example, that the borrowing powers of Management Board are not limited.

5.6.4 Internal regulations

According to the Articles, each of the Supervisory Board and the Management Board, has the power to adopt internal regulations for the Management Board. Before the Management Board adopts such regulations, they must be approved by the Supervisory Board.

5.6.5 Meetings

The Management Board shall, according to its internal regulations, convene meetings at least twice per month. Furthermore, the Management Board shall meet whenever the interests of the Company so require.

5.6.6 Resolutions

Management Board resolutions shall be passed in meetings. Resolutions, however, may also be passed outside of meetings in writing, by telex, facsimile or phone, if no board member objects thereto.

Resolutions of the Management Board require a simple majority. In the event of a tied vote, the chairman of the meeting has a counting vote.

5.6.7 Reports to the Supervisory Board.

The Management Board shall inform the Supervisory Board on the business of the Company pursuant to the reporting obligations contained in Section 90 AktG. This provides that the Management Board shall report to the Supervisory Board on various matters including (but not limited to) the proposed business strategy and the profitability of the Company. This reporting requirement also applies to subsidiaries of the Company.

The internal regulations provide that the Management Board shall inform the Supervisory Board, in particular, of: any lawsuits or administrative proceedings brought against the Company involving a value in dispute in excess of EUR 200,000; and if a Shareholder gives written notice of acquiring, exceeding or falling below the thresholds of 5 per cent., 10 per cent., 25 per cent., 50 per cent. or 75 per cent. of the voting rights in the Company.

5.6.8 Required Supervisory Board approval

According to the internal regulations of the Management Board, various material measures and transactions require Supervisory Board approval. However, should the Management Board take such an action without Supervisory Board approval, the actions are likely to be binding on the Company but the Management Board may have violated its duties to the Company.

5.7 The Supervisory Board (*Aufsichtsrat*)

5.7.1 Composition and term of office

According to the Articles, the Supervisory Board has three members, elected by the shareholders' meeting. According to German statutory law, the minimum number of members of the Supervisory Board is three. The number of members of the Supervisory Board can only be a multiple of three (for example three, six, nine and etc.). A change of the number of members of the Supervisory Board requires a change to the Articles. This in turn requires a shareholder resolution.

The Articles provide that the term of service of the members of the Supervisory Board shall end not later than the annual shareholders' meeting that decides on the formal discharge (*Entlastung*) of the members of the Supervisory Board for the fourth business year after the beginning of their term (excluding the business year when their term began). If a new member is elected instead of a former member of the Supervisory Board, the term of service of the new member shall be the remainder of the term of the former member. Re-election of members of the Supervisory Board is permitted. All members of the Supervisory Board serve for the same term and that there is no rotation.

The current members of the Supervisory Board are Dr. Werner Mellis, Scott Hansen and Jeremy Hamer. These members were elected by the shareholders' meeting on 20 June 2005 (with the exception of Jeremy Hamer who was appointed at a shareholders' meeting on 25 August 2005) and in each case their term of service continues until the conclusion of the general shareholders' meeting for the financial year ending 31 December 2006.

Members of the Supervisory Board may resign from office by giving one month's notice. Furthermore, members of the Supervisory Board may be dismissed by shareholder resolution, which requires a simple majority of the votes cast, prior to the end of their term with or without reasons.

5.7.2 Chairman

The members of the Supervisory Board elect a chairman and a vice-chairman. If the chairman or the vice-chairman ceases to be a member of the Supervisory Board prior to the end of their term of service, the Supervisory Board must elect a new chairman or vice chairman, as the case may be, for the rest of the term without undue delay.

The chairman is authorised to take appropriate actions and make appropriate declarations in order to implement resolutions of the Supervisory Board.

If the chairman is unavailable, the vice-chairman has the same rights and obligations as the chairman.

5.7.3 Internal regulations

Like the Management Board, the Supervisory Board adopts internal regulations. The current internal regulations provide, amongst other things, that the members of the Supervisory Board shall cooperate with the Management Board and shall not be bound by any orders or instructions.

5.7.4 Meetings

According to the Articles, the Supervisory Board shall convene once per calendar quarter and must convene at least once every calendar half-year (unless mandatory statutory provisions require otherwise). The internal regulations provide that the Supervisory Board shall convene as often as required, if so requested by a member of the Management Board or by a member of the Supervisory Board.

5.7.5 Resolutions

Supervisory Board resolutions shall be passed in meetings, although resolutions can also be passed outside of meetings in writing, by fax or by phone, if all members of the Supervisory Board agree to this kind of voting and participate in the vote.

According to the Articles, a quorum of the Supervisory Board is achieved if all members of the Supervisory Board take part in the vote on the resolution. Members who abstain from voting are deemed to take part in the vote for purposes of this provision. An absent member of the Supervisory Board may take part in the vote by submitting a written vote to another member of the Supervisory Board. However, under statutory law a member of the Supervisory Board may not issue a power of attorney or authorise some other person or member of the Supervisory Board to vote on their behalf.

Resolutions of the Supervisory Board are passed according to a simple majority of the votes cast unless the law or the Articles require an alternative. Abstentions do not count as cast votes. The Chairman does not have a second vote in case of a tie.

5.7.6 Remuneration

The members of the Supervisory Board shall receive remuneration payable upon the end of the business year. The amount of the remuneration shall be determined by resolution of the shareholders' meeting. The remuneration of the chairman shall be 25 per cent. greater than that of the other members of the Supervisory Board. The members of the Supervisory Board are also entitled to be reimbursed for necessary expenses upon evidence of such expenses.

5.8 Meetings of the Shareholders

5.8.1 Location

The shareholders' meeting shall take place at the corporate seat of the Company (currently in Cologne) or in a city where a German stock exchange is located.

5.8.2 Participation in meetings

Shareholders' meetings shall be called by the Management Board. The annual shareholders' meeting shall take place within the first eight months of the business year. This annual meeting makes decisions on the use of the profits shown in the financial statements, the formal discharge (*Entlastung*) of the members of the Management Board and the Supervisory Board and the appointment of the Company's auditors. Extraordinary shareholders' meetings shall be

convened if this appears to be in the interests of the Company or if the statutorily required minority according to Section 122 AktG (currently 5 per cent. of the issued share capital) requests such a meeting.

Those shareholders who are registered in the register of DI Holders and have made the necessary arrangements with the Registrar as advised to them prior to such meeting and who have timely registered for the shareholders' meeting will be allowed to attend the shareholders' meeting and to cast their votes. Registration for the shareholders' meeting shall be by giving notice to the management board at the company's registered seat or with a person as described in the invitation to the shareholders' meeting; registration shall be in writing, by telefax or by electronic means not later than three business days prior to the day of the shareholders' meeting. Saturdays are not deemed to be business days within the meaning of this provision. More specific requirements and instructions for the registration shall be given in the invitation to shareholders' meeting.

5.8.3 Chairman

The chairman of the Supervisory Board shall be the chairman of the shareholders' meeting and determines the order in which the agenda topics shall be dealt with as well as the method and format of voting.

5.8.4 Voting rights and resolutions

All shares are registered non-par value shares with an imputed par value of €1 per share. There is only one class of shares, Ordinary Shares. Each share grants the holder one vote in the shareholders' meeting. No Shareholder has or will, after Admission, have different voting rights from other Shareholders

Unless mandatory statutory provisions request otherwise, shareholder resolutions are passed with a simple majority of votes cast. If statutory law so requires, a majority of the eligible votes as well as a majority of the represented share capital at the meeting may be required in order to pass a resolution. In the event of a tie, the resolution is deemed to be rejected.

If in the case of elections, should a simple majority not be reached in the first election, there will be a second ballot, voting between the persons who have received most of the votes in the first ballot. The person who receives the greatest number of the votes in the second ballot wins.

5.9 Financial statements

The Management Board shall prepare the financial statements and the status report as well as the consolidated group financial statements and the consolidated group status report for the past fiscal year within the first three months of the new fiscal year and submit them to the Supervisory Board without undue delay. The Supervisory Board shall then instruct the Company's auditor to audit the financial statements and the consolidated group financial statements.

The Supervisory Board shall review all of these statements as well as the management board's proposal for the use of the profits of the Company.

The financial statements are adopted if the Supervisory Board approves the financial statements unless the Management Board and the Supervisory Board together decide that the shareholders' meeting should decide on the adoption of the financial statements.

6 Directors and other interests

- 6.1 The interests of the Directors (which are beneficial interests save as indicated below) in the issued share capital of the Company which if the Company were incorporated under the Act would be required to be notified to the Company pursuant to sections 324 and 328 of the Act or which would be required to be entered in the register of Directors' interests maintained by the Company pursuant to section 325 of the Act, including, so far as the Directors are aware, after making due and careful enquiry, interests of persons connected (within the meaning of section 346 of the Act) with the

Directors which interests, if such connected persons were Directors, would be required to be disclosed pursuant to the Act, and the existence of which is known to or could with reasonable diligence be ascertained by the Directors, both as at the date of this document (“Current Position”) and as they will be immediately following completion of the Placing, are as follows:

<i>Director</i>	<i>Current Position</i>		<i>Immediately following completion of the Placing</i>			
	<i>No. of Ordinary Shares</i>	<i>Percentage of share capital</i>	<i>No. of options over Ordinary Shares</i>	<i>No. of Ordinary Shares</i>	<i>Enlarged Issued Ordinary Share Capital</i>	<i>No. of options over Ordinary Shares</i>
Heinz Bons ¹	5,072,670	50.27	–	4,359,904	27.66	–
Rudolf van Megen ²	5,011,054	49.66	–	4,659,990	29.56	–
René Gawron	–	–	72,800	–	–	72,800 ³
Prof. Werner Mellis	3,178	0.03	–	9,600	0.06	–
Scott Hansen	3,178	0.03	–	9,600	0.06	–
Jeremy Hamer	–	–	–	7,900	0.05	–

1. Includes 932,544 shares held by Heinz Bons’ wife Maria Helena Bons representing 9.24 per cent. of the current issued share capital and 61,616 shares held on trust for employees of SQS.

2. Includes 932,544 shares held by Rudolf van Megen’s wife, Ilona Franziska van Megen representing 9.24 per cent. of the current issued share capital.

3. This is the maximum number of shares which may be issued pursuant to the exercise of options by Mr Gawron.

6.2 No options over Ordinary Shares have been granted to Directors by the Company.

6.3 Save as disclosed in this and in paragraph 6.1, no Director has any interest, beneficial or non-beneficial, in the share capital of the Company.

René Gawron and certain other senior managers at the Company (who are not Directors) have been granted options to purchase Ordinary Shares from each of Heinz Bons and Rudolf van Megen. Further details of these options arrangements are set out at paragraph 10 of Part V of this document.

6.4 The Directors are aware of the following persons, who will, following the completion of the Placing, be interested in 3 per cent. or more of the issued Ordinary Shares:

<i>Name</i>	<i>Number of Ordinary Shares following completion of the Placing</i>	<i>Percentage of Enlarged Issued Share Capital</i>
Morley Fund Management	1,450,000	9.20
Artemis Investment Management	600,000	3.81
DIT – Deutscher Investment-Trust Ges. Für Wertpapieranlage mbH	600,000	3.81

6.5 Save as disclosed in paragraphs 6.1 and 6.4 above, the Directors are not aware of any interest (within the meaning of Part VI of the Act) in the issued Ordinary Shares which, immediately following completion of the Placing would amount to 3 per cent. or more of the issued Ordinary Shares. Save as disclosed in paragraphs 6.1, 6.2 and 6.3 above, the Company is not aware of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

6.6 The Company has not entered into a relationship agreement with Heinz Bons and Rudolf van Megen (who, following the Placing, will together hold approximately 57 per cent. of the Enlarged Issued Share Capital). This is for two reasons. First, German law provides that shareholders who (whether acting alone or in concert) have a majority or, in some cases, a blocking minority in the shareholders’ meeting may not act in bad faith to the detriment or prejudice of the Company. These German law

provisions therefore already give the Company protection in this regard. Second, there is a possibility that the entry by the Company into such an agreement would create a relationship between the Management Board (*Vorstand*) and the shareholders concerned that may run contrary to German principles of good corporate governance by potentially allowing the management of the company to influence its shareholders.

6.7 The Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

6.8 Because the Company is a German Stock Corporation, the City Code on Takeovers and Mergers does not apply.

6.9 *German Takeover Act*

The German Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) applies only to listed companies (*börsennotierte Gesellschaften*), i.e. a company whose shares are admitted for trading at a regulated market. Since AIM is currently not regarded as such regulated market, the German Takeover Act does currently not apply. However, if AIM is regarded as a “regulated market” in the future, the provisions of the German Takeover Act will apply.

6.10 *Notification Obligations*

Under German law, any person whose direct or indirect (e.g. through affiliates companies) shareholding in a German Aktiengesellschaft exceeds or, having previously reached such level, falls short of (i) 25 per cent. of the company’s shares or (ii) a majority interest (as defined by the German Stock Corporation Act) has to notify the company promptly thereof. As long as the respective shareholder has not notified the company of reaching the above shareholdings, no rights, in particular no voting rights, can be exercised by this shareholder.

The provisions of the German Securities Trading Act (*Wertpapierhandelsgesetz*) that deal with notification requirements if certain thresholds of voting rights are reached (in particular its Section 21) apply only to listed companies (*börsennotierte Gesellschaften*). A listed company within the meaning of these provisions is a company whose shares are admitted for trading at a regulated market, i.e. a market that is regulated and supervised by public authorities, that takes place on a regular basis and that is directly or indirectly accessible by the public. Since AIM is currently not regarded as such regulated market (see Investment Services Directive and the yearly updated list of regulated markets, updated on 12 May 2005), the notification obligations under the German Securities Trading Act do currently not apply. However, if AIM is regarded as a “regulated market” in the future, the provisions of the German Securities Trading Act will apply. Those provisions provide that any person whose shareholding in a German listed company exceeds or, having previously reached such level, falls short of 5 per cent., 10 per cent., 25 per cent., 50 per cent. or 75 per cent. of the voting rights must notify the company and the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) in writing thereof.

7 Directors’ details service contracts and details

7.1 Save as set out below, there are no existing or proposed service contracts between the Company or any of its subsidiaries and the Directors providing for benefits upon termination or otherwise.

7.1.1 On 17 March 2000, Heinz Bons entered into a service agreement with the Company under which he agreed to serve as a director of the Management Board for a fixed term of 5 years. The agreement has been subsequently amended and now expires 31 December 2007. Mr Bons receives a current annual salary of €168,000 increasing to €186,000 in 2006 and €204,000 in 2007. Additionally, he is entitled to a yearly bonus upon achievement of yearly agreed revenue and profit goals. The bonus amounts to up to €112,000 in 2005, €124,000 in 2006 and €136,000 in 2007. It is terminable with immediate effect, prior to expiry of the fixed terms, for material cause. In addition to the basic remuneration, Mr Bons is entitled to accident life insurance, a company car allowance and contributions into a private pension plan.

- 7.1.2 On 17 March 2000, Rudolf van Megen entered into a service agreement with the Company under which he agreed to serve as a director of the Management Board for a fixed term of 5 years. The agreement has been subsequently amended and now expires 31 December 2007. Mr van Megen receives a current annual salary of €168,000 increasing to €186,000 in 2006 and €204,000 in 2007. Additionally, he is entitled to a yearly bonus upon achievement of yearly agreed revenue and profit goals. The bonus amounts to up to €112,000 in 2005, €124,000 in 2006 and €136,000 in 2007. It is terminable with immediate effect, prior to expiry of the fixed terms, for material cause. In addition to the basic remuneration, Mr van Megen is entitled to accident life insurance, a company car allowance and contributions into a private pension plan.
- 7.1.3 On 13 June 2001, René Gawron entered into a service agreement with the Company under which he agreed to serve as a director of the Management Board for a fixed term of 3 years. The agreement has been subsequently amended and now expires 31 December 2007. Mr Gawron receives a current annual salary of €150,000 increasing to €165,000 in 2006 and €180,000 in 2007. Additionally, he is entitled to a yearly bonus upon achievement of yearly agreed revenue and profit goals the bonus amounts to €100,000 in 2005, €110,000 in 2006 and €120,000 in 2007. It is terminable with immediate effect, prior to expiry of the fixed terms, for material cause. In addition to the basic remuneration, Mr Gawron is entitled to accident life insurance, a company car allowance and contributions into a private pension plan.
- 7.1.4 Each of Prof. Dr. Werner Mellis and Scott Hansen was appointed to the Supervisory Board pursuant to a shareholders' resolution dated 20 June 2005. Jeremy Hamer was appointed to the Supervisory Board pursuant to a shareholders' resolution dated 25 August 2005. The annual remuneration receivable by each of them is fixed by resolution of the shareholders and for 2005 and subsequent years, unless changed by shareholders' resolution in the future, this was €31,250 for the chairman and for the other members €25,000. No letters of appointment are entered into between them and the Company and the terms of their appointment are set out in the resolution and the Company's Articles.
- 7.2 The aggregate remuneration and benefits in kind (including bonuses and profit shares) paid to the Directors for the financial year ended 31 December 2004 was €676,000. It is estimated that the aggregate remuneration and benefits in kind (including bonuses and profit shares) to be paid to the Directors for the year ending 31 December 2005 will be approximately €860,000.
- 7.3 Save as set out below, the Directors have not held any directorships of any company (other than the Company) or partnerships in the last five years:

<i>Director</i>	<i>Current directorships and interests in partnerships</i>	<i>Directors (and partnerships) resigned during the past five years</i>
Rudolf van Megen	SQS Group (UK) Limited Immobilienfonds Stollwerckstr. GmbH Immobilienfonds Am Westhover Berg GbRmbH Immobilienfonds Universitätsstr. GbRmbH ASQF e.V., Erlangen	Software Industrie Support Zentrum
Heinz Bons	SQS Group (UK) Limited Immobilienfonds Stollwerckstr. GmbH	
René Gawron	SQS Group (UK) Limited SQS Portugal Lda SQS Software Quality Systems (Schweiz) AG	Artificial Life Deutschland AG

<i>Director</i>	<i>Current directorships and interests in partnerships</i>	<i>Directors (and partnerships) resigned during the past five years</i>
Dr. Werner Mellis	None	QFD – Institut e.V Verein zu Förderung von Forschung und Lehre in Organisation, Planung and Wirtschaftsinformatik an der Universität zu Köln e.V (colo.net)
Scott Hansen	Software Services Support for Europe & India SPRL Teamcall Limited Quality Assurance Institute SPRL	None
Jeremy Hamer	Inter Link Foods Plc Glisten PLC Rose Bowl PLC Avingtrans plc Access Intelligence plc Unicorn AIM VCT II plc Financial Decisions Berkeley Scott Group plc West Country Fine Foods Ltd.	Honeysuckle Group Plc Baldwin & Francis Limited Club4sports Limited D'Aguiar Marketing and Design Limited No Legwork Plc Honeysuckle Fashions Limited Pro:atria Limited The National Solicitor's Network Limited Rushden Granulating Company Limited Rushden Playsafe Limited Dowcarter Limited Qube Strategic Marketing Limited Napier Brown Foods Plc

Save as set out in this paragraph, no Director has or has had any interest direct or indirect in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which has been effected by the Company during the current or immediately preceding financial year, or which was effected by the Company during any earlier financial year and which remains in any respect outstanding or unperformed. Each of Heinz Bons and Rudolf van Megen has a significant holding of shares in Immobilienfonds Stollwerckstr. GmbH & Co KG and Immobilienfonds Am Westhover Berg GbRmbH which are the landlords under the leases for the offices occupied by the Company at Stollwerckstrasse 11 and Am Westhover Berg/Sophienstrasse, 51149 Cologne respectively for which the aggregate monthly rent payable by the Company is approximately €110,000.

No Director has any unspent convictions in relation to indictable offences, nor has any of them been personally bankrupt or in any individual voluntary arrangement with creditors.

- 7.4 Save as set out in this paragraph no Director has been a director of a company or a partner in a partnership at the time or within 12 months preceding the time at which the company or partnership entered into receivership, compulsory liquidation, creditors' voluntary liquidation, administration, a company voluntary arrangement or a partnership voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors.

René Gawron was a director of the Artificial Life Deutschland AG until 4 May 2001. That company was put into insolvent liquidation in June 2001 after its US parent company Artificial Life Inc. discontinued further financial support for its German subsidiary.

Jeremy Hamer was (a) a non-executive director of Harveys Traditional Bakery Limited which was liquidated in 1997 during his tenure as a director, (b) a non-executive director of Vendotech Limited which entered into creditors' voluntary arrangements in 1999 within 12 months of his ceasing to be a director, (c) a non-executive director of No Legwork Plc which completed a members' voluntary winding-up in 2002 during his tenure as a director, (d) a representative non-executive director of

Elderstreet DRKC Limited and was a non-executive director of each of Rushden Granulating Company Limited, Rushden Playsafe Limited, D'Aguiar Marketing and Design Limited and Qube Strategic Marketing Limited, all of which were liquidated or entered into administration between 2001 and 2004 during his tenure as a director and (e) a non-executive director of Club4sports Limited which entered into a members' voluntary liquidation in 2003 during his tenure as director.

- 7.5 No Director has had a receivership of any of his assets or of any assets of any partnership in which he was a partner at the time of or within twelve months of such receivership.
- 7.6 None of the Directors has been publicly criticised by a statutory or regulatory authority (including recognised professional bodies), disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- 7.7 There are no outstanding loans granted by the Company to any of the Directors nor has any guarantee been provided by the Company for the benefit of any Director.
- 7.8 The directors Heinz Bons and Rudolf van Megen have granted a shareholder loan to the Company in the aggregate amount of €500,000 in July 2003, at an interest rate of five per cent. per annum, which will be repaid out of the proceeds of the Placing.

8 Material Contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or by a member of the Group in the two years prior to the date of this document and are, or may be, material or which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

- 8.1 a nominated adviser and broker agreement between Evolution Securities, the Directors and the Company dated 14 September 2005 under which Evolution Securities agreed to act as nominated adviser to the Company in relation to its application for Ordinary Shares to be admitted to trading on AIM and pursuant to which Evolution Securities receives an annual fee of £50,000 excluding VAT commencing six months following Admission;
- 8.2 a placing agreement dated 14 September 2005 between the Company, the Directors, Sal. Oppenheim and Evolution Securities for the placing of Ordinary Shares with institutional investors (further details of which are set out at paragraph 9 below);
- 8.3 two subscription agreements (in identical form) each dated 14 September 2005 between the Company and each of Evolution Securities and Sal. Oppenheim pursuant to which each of Evolution Securities and Sal. Oppenheim agrees to subscribe the number of Ordinary Shares stated in the relevant agreement to comply with German legal requirements. Such Ordinary Shares will then be sold to applicants pursuant to the Placing;
- 8.4 a selling shareholders' agreement dated 14 September 2005 in respect of the Sale Shares between the Company, Evolution Securities, Sal. Oppenheim and each of Rudolf van Megen and Heinz Bons pursuant to which each of Evolution Securities and Sal. Oppenheim have agreed to use their reasonable endeavours to procure purchasers for the Sale Shares owned by Mr van Megen and Mr Bons, as their agents, at the Placing Price. The sale is not underwritten. The Company has undertaken as soon as practicable after Admission and delivery of duly executed transfer documentation to procure that the transfers be approved by the Directors for registration with the commercial registry.
- 8.5 an agreement dated 28 December 2004 pursuant to which the Company agreed to sell a 36 per cent. interest in SQS Portugal Sistames de Qualidade de Software Lda for €1.00 (leaving it with a 15 per cent. minority interest in that entity);
- 8.6 an agreement dated 30 September 2004 pursuant to which the Company agreed to sell all the shares in SQS Software Quality Systems S.A. to Ingenieria de Gestion y Control SL for an aggregate sum of €267,000.
- 8.7 the Depositary Agreement (details of which are set out in paragraph 16 below).

9 The Placing Agreement

Pursuant to the Placing Agreement:

Each of Evolution Securities and Sal. Oppenheim have agreed, conditionally on, *inter alia*, Admission taking place not later than 8.00 a.m. on 20 September 2005 or such later date as shall be agreed between the Company, Evolution Securities and Sal. Oppenheim being no later than 20 October 2005, to use their reasonable endeavours, as agents on behalf of the Company, to procure placees for 2,836,500 new Ordinary Shares in the case of Evolution Securities and 2,836,500 new Ordinary Shares in the case of Sal. Oppenheim. Each of Evolution Securities and Sal. Oppenheim will enter into the Subscription Agreement with the Company for their respective number of new Ordinary Shares. Pursuant to the Placing Agreement, each of Evolution Securities and Sal. Oppenheim shall transfer those shares to the placees at the Placing Price and remit the balance of the Placing Price to the Company (less fees, commissions, expenses and the subscription consideration). To the extent that either Evolution Securities or Sal. Oppenheim fail to so transfer the new Ordinary Shares to placees, they shall pay the balance of the Placing Price to the Company.

In the event that the subscription has taken place and Admission does not occur, the Company has agreed to procure the repurchase of any Ordinary Shares still held by Evolution and/or Sal. Oppenheim either by way of a reduction in capital of the Company or through the sale of such shares to the Selling Shareholders or a third party as soon as practicable.

The Company will pay *pro rata* to each of Evolution Securities and Sal. Oppenheim a commission of 4 per cent. of the aggregate value of the Placing Shares at the Placing Price and a fee of £120,000 to Evolution Securities and £30,000 to Sal. Oppenheim, together with any applicable value added tax.

The Company will pay all other costs, charges and expenses of, or incidental to, Admission and the Placing, including the expenses of the registrars, printing and advertising expenses, postage and all legal, accountancy, actuarial and other professional fees and expenses of Evolution Securities and Sal. Oppenheim.

The Company and the Directors have given certain warranties to Evolution Securities and Sal. Oppenheim regarding the accuracy of information contained in this document and other matters relating to the Group and its business and certain indemnities regarding certain liabilities and costs. The Company has given an indemnity to Evolution Securities and Sal. Oppenheim on customary terms against certain losses arising from *inter alia* Admission and the Placing.

Evolution Securities and Sal. Oppenheim may terminate the Placing Agreement in specified circumstances including if certain events of *force majeure* occur prior to Admission, or may terminate the Placing Agreement prior to Admission if there is a breach of any of the warranties contained in the Placing Agreement which Evolution Securities and Sal. Oppenheim reasonably considers to be material.

10 Share Option Arrangements

On 9 September 2005, each of Messrs Bons and van Megen (“Sellers”) entered into agreements (“Option Agreements”) with certain key employees of SQS pursuant to which they granted each employee the option (“Option”) to purchase Ordinary Shares held by them on the terms of the Option Agreements. In particular, the Option Agreements provide that the employees may purchase up to 72,800 Ordinary Shares (different caps apply to different employees) at a price per Ordinary Share ranging from €0.42 per share to €3.12 per Ordinary Share (depending on the market price of an Ordinary Share over the 15 day period prior to the date on which the employee gives notice of his intention to exercise the Option). The Option is exercisable (in whole or in part) from 1 October 2007 until 30 September 2009 in respect of not less than one quarter in number of the total number of shares the subject of the Option as at the date of the Option Agreement.

11 Litigation

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

12 Working Capital

In the opinion of the Directors, having made due and careful inquiry and after taking into account the existing bank facilities available to the Company and to the Group and the net proceeds of the Placing receivable by the Company, the working capital available to the Company and to the Group is sufficient for its present requirements (that is to say for at least 12 months from Admission).

13 Taxation

This paragraph summarises some of the relevant tax provisions for investors in Germany and the UK. All investors (and in particular those in other jurisdictions) should seek independent tax advice on the consequences of holding and dealing in the Company's shares.

13.1 UK Taxation

The following statements are intended only as a general guide to the UK tax position in relation to persons who are i) resident, ordinarily resident and domiciled in the UK for UK tax purposes and ii) beneficial owners of Ordinary Shares in the Company. They may not apply to certain shareholders, such as dealers in securities. They are based on current UK legislation and Inland Revenue practice at the date of this document. Any person who is in any doubt as to his tax position, is resident or domiciled outside the UK, or who is subject to taxation in any jurisdiction other than the UK, should consult his or her professional advisers immediately.

This section is written on the basis that the Company is and remains resident in Germany and will therefore be subject to the German tax regime and not (save in respect of UK source income) the UK tax regime. Dividends paid by the Company will, on this basis, be regarded for UK tax purposes as German dividends rather than UK dividends.

13.1.1 *Dividends*

Where a German resident company pays a dividend to individuals it is obliged under German domestic tax law to deduct withholding tax equal to 20 per cent. of the dividend and pay this over to the German tax authorities.

UK resident individual shareholders will be treated for UK tax purposes as having received taxable income equal to the amount of the dividend before deduction of German withholding tax (the 'gross dividend'). Such individuals will be entitled to claim relief (known as foreign tax credit relief) for the German withholding tax suffered against their UK income tax liability on the gross dividend.

Under the UK / Germany Double Tax Treaty the amount of German withholding tax in respect of a dividend must not exceed 15 per cent. of the gross dividend. The amount of foreign tax credit relief a UK resident individual can claim against his or her income tax liability on the dividend income cannot exceed the 15 per cent. rate (known as the 'treaty rate'). In addition, the amount of foreign tax credit relief which can be claimed cannot exceed the UK income tax chargeable on the gross dividend income.

The gross dividend will be chargeable to income tax at the rate of 10 per cent. in the hands of a UK resident individual shareholder who is liable to income tax at the starting or basic rate. Such an individual's UK income tax liability on the gross dividend will be wholly covered by the amount of foreign tax credit relief, with the consequence that no further UK income tax will be payable.

The gross dividend will be chargeable to income tax at the special dividend rate of 32.5 per cent. in the hands of a UK resident individual shareholder whose taxable income exceeds the basic rate threshold (£32,400 for the 2005/06 tax year). After taking account of the 15 per cent. foreign tax credit relief, an individual liable at the special dividend rate of 32.5 per cent. will have a further UK income tax liability equal to 17.5 per cent. of the gross dividend.

In determining what income tax rates apply to a UK resident individual shareholder, dividend income is treated as the individual's top slice of income.

All UK resident individual shareholders will be entitled to apply to the German tax authorities for a refund of the tax withheld in excess of the treaty rate. As the current withholding tax rate is 20 per cent., and the treaty rate is 15 per cent., a refund equal to 5 per cent. of the gross dividend will be due.

A UK resident (for tax purposes) corporate shareholder will be liable to UK corporation tax on the gross dividend received from a German company. Credit for any withholding tax suffered will be given against the corporate shareholder's UK corporation tax liability on the dividend income. The foreign tax relief cannot exceed the UK corporation tax charged on the same profits. If a UK resident corporate shareholder with at least 10 per cent. of the voting power of the Company receives a dividend from the Company it may also obtain relief for the underlying foreign tax on the profits out of which the dividend is paid.

A corporate shareholder owning at least 25 per cent. of the Ordinary Shares in the Company for a period in excess of 12 months may be able to apply in advance for a certification of exemption from the withholding tax levied on dividends and receive dividends free of withholding tax.

13.1.2 *Capital Gains*

For the purpose of UK tax on chargeable gains, it is expected that the issue of new Ordinary Shares pursuant to the Placing will be regarded as an acquisition of a new holding in the share capital of the Company.

The new Ordinary Shares so allotted will, for the purpose of UK tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the new Ordinary Shares will usually constitute the base cost of a shareholder's holding.

If the shareholder disposes of all or some of these new Ordinary Shares, a liability to tax on chargeable gains may, depending on its circumstances, arise.

Consequences of the disposal of shares

UK resident individual holders of Ordinary Shares may, depending on their personal circumstances, be liable to capital gains tax on any chargeable gain realised on the disposal of their Ordinary Shares whilst they are resident or ordinarily resident for tax purposes in the UK, subject to any deductions, reliefs (such as taper relief) or exemptions that may be available to them.

UK resident corporate holders of Ordinary Shares may be liable to corporation tax on chargeable gains realised on the disposal of their Ordinary Shares, subject to certain deductions, reliefs and exemptions.

Taper relief

Chargeable gains realised by individuals, trustees and personal representatives (but not corporates) on the disposal of Ordinary Shares may be reduced (tapered) according to the length of time the Ordinary Shares have been held. The availability and rate of taper relief will depend upon the period of ownership of the Ordinary Shares and on whether the Ordinary Shares qualify as business assets or not for the individuals, trustees or personal representatives in question.

Taper relief does not apply at all for the purposes of calculating corporation tax on chargeable gains. However, the base cost of corporate shareholders' holdings is increased by indexation allowance which may reduce the amount of gain chargeable to corporation tax on a subsequent disposal.

An Ordinary Shareholder who is not resident in the UK but who carries on a trade, profession or vocation in the UK through a branch or agency, and has used, held or acquired their Ordinary Shares for the purposes of such trade, profession or vocation or such agency, may be subject to UK taxation on chargeable gains arising from the sale of their Ordinary Shares.

An Ordinary Shareholder who is an individual and who has on or after 17 March 1998 ceased to be resident or ordinarily resident in the UK for a period of less than five complete tax years and who disposes of Ordinary Shares during that period of non residence may be liable, in the tax year of return to the UK, to UK taxation on chargeable gains arising from the sale of their Ordinary Shares.

13.1.3 *Stamp duty and stamp duty reserve tax*

Ordinary Shares

No charge to stamp duty or stamp duty reserve tax (“SDRT”) should arise on the issue or registration of applications for new Ordinary Shares under the Placing.

Provided that the register of members is not kept in the UK, no charge to SDRT should arise on any agreement to transfer the Ordinary Shares (including any Vendors Shares which are transferred as part of this placing).

In principle, stamp duty at 0.5 per cent. will arise on a transfer of the Ordinary Shares (including any Vendor Shares which are transferred as part of the placing) where the document of transfer is executed in the UK or there is a matter or thing to be done in the UK. However, this tax will generally only be payable where the document of transfer is needed for any official purpose in the UK which may mean that no stamp duty is payable in practice.

DIs

In principle there may be a charge to SDRT on an agreement to transfer the DIs in CREST. Should such a charge arise this is likely to be at the rate of 0.5 per cent. of the value of the transaction. However, where the shares that are transferred into the DI arrangements are regarded as foreign securities they should not be within the charge to SDRT in the first instance. Broadly, foreign securities are shares in companies incorporated outside the UK whose shares are both kept on a register of members outside the UK and where shares of the same class in the company are also listed on a recognised stock exchange. The German Stock Exchange is ‘recognised’ for these purposes.

If, however, any transfer would result in the DI ceasing to be a DI over the Ordinary Shares then detailed advice should be sought.

13.2 **German Taxation**

The following section “Taxation in the Federal Republic of Germany” contains a short summary of certain important German tax principles that may be or may become relevant with respect to the acquisition, holding, or transfer of shares. This summary is not a comprehensive or exhaustive description of all tax considerations that may be relevant to shareholders. The summary is based upon the domestic German tax laws in effect as of the time of preparation of this Offering Circular and upon the double taxation treaties currently in force between Germany and other countries. Provisions in both areas may change, possibly with retroactive effect.

Prospective buyers of the shares therefore are advised to consult their tax advisors as to the tax consequences of the acquisition, the holding, as well as the sale and the gratuitous transfer of shares, and as to the procedures that must be followed to receive a refund of German withholding tax (dividend withholding tax). Such tax advisors will be able to fully consider the particular tax situation of each shareholder.

13.2.1 Taxation of the Company

German corporations are generally subject to corporate income tax at a uniform rate of 25 per cent., plus a solidarity surcharge of 5.5 per cent. thereon (resulting in a total of about 26.4 per cent.), whether profits are distributed or retained.

95 per cent. of dividends or other profit shares received by the Company from domestic or foreign corporations are generally exempt from corporate income tax. The remaining 5 per cent. of such income are considered lump-sum non-deductible business expenses and as such are subject to corporate income tax (plus solidarity surcharge). The same applies to profits earned by the Company from the sale of shares in a domestic or foreign corporation.

In addition, German corporations are subject to trade tax with respect to income from permanent establishments in Germany. The effective trade tax rate depends upon the local municipalities in which the Company maintains permanent establishments. Trade tax generally amounts to approx. 15 per cent. to 25 per cent. of the trade tax base pre-trade tax deduction, depending upon the "local multiplier" of the municipality. Trade tax qualifies as a deductible business expense for purposes of calculating the corporate income tax base and trade tax base.

Profit shares received from domestic or foreign corporations and capital gains from the sale of shares in other corporations generally are afforded the same treatment for trade tax purposes as for income tax purposes. However, 95 per cent. of profit shares are tax-exempt only if the Company has held at least 10 per cent. of the registered share capital of the distributing corporation at the beginning of the relevant tax assessment period. Additional limitations apply to profit shares received from foreign corporations.

13.2.2 Taxation of Shareholders

Shareholders are taxed in connection with the holding of shares (taxation of dividends), the sale of shares (taxation of capital gains), and the gratuitous transfer of shares (inheritance and gift tax).

13.2.3 Taxation of Dividends

Dividend Withholding Tax

The Company must generally withhold and pay to the German tax authorities, for the account of its shareholders, a withholding tax (dividend withholding tax) in the amount of 20 per cent., plus a solidarity surcharge of 5.5 per cent. on the amount of dividend withholding tax (a total of 21.1 per cent.), on dividends distributed by the Company. The dividend withholding tax base is the amount of dividends approved for distribution by the Company's General Shareholders' Meeting. Dividend withholding tax is generally withheld regardless of whether and, if so, to what extent dividends are tax-exempt at the level of the shareholder and regardless of whether the shareholder is a resident or non-resident of Germany.

If dividends are distributed to a company domiciled in a member state of the European Union or in a state with which Germany has entered into a double taxation treaty, the withholding of dividend withholding tax may be waived, in whole or in part, upon request provided, however, that additional requirements are met. This generally requires that such company owns at least 10 per cent. or 25 per cent., as the case may be (depending on the member state of the European Union or the contracting state of the double taxation treaty), of the registered share capital of the Company.

The dividend withholding tax rate for distributions to non-resident shareholders may be reduced in accordance with the applicable double taxation treaty, provided that Germany and the shareholder's country of residence have entered into a double taxation treaty and that the shareholder's shares are not held as part of the business property of a permanent establishment or fixed base in Germany or as part of a business property for which a permanent representative in Germany has been appointed. The withholding tax is generally reduced by refunding, upon

application, by the German tax authorities (*Bundesamt für Finanzen*, Friedhofstrasse 1, D-53225 Bonn), the difference between the total amount withheld, including the solidarity surcharge, and the amount of dividend withholding tax actually owed under the applicable double taxation treaty (generally 15 per cent.). Forms for the refund procedure may be obtained from the Bundesamt für Finanzen (www.bff-online.de) or any German embassy or consulate.

Resident shareholders

If shareholders (individuals or corporations) are tax residents of Germany (i.e., persons or entities whose residence, habitual abode, registered domicile, or central management and control is located in Germany), dividend withholding tax (including the solidarity surcharge) withheld, paid and evidenced to the German tax authorities is credited against the respective shareholder's personal income or corporate income tax burden, or is refunded to the shareholder in the amount of overpayment.

If an individual who is a tax resident of Germany holds shares as non-business (private) assets, 50 per cent. of all dividends are included in taxable investment income (so-called *Halbeinkünfteverfahren*). Such taxable dividends are subject to a progressive income tax rate (up to 42 per cent. from the year 2005 on), plus a 5.5 per cent. solidarity surcharge thereon (assuming that the maximum tax rate of 42 per cent. applies, the total tax burden would be approx. 44.3 per cent.) and, if applicable, church tax is also levied at a rate of 8 per cent. or 9 per cent. on the income tax. Only one half of the expenses having an economic nexus with the receipt of such dividends (*Werbungskosten*) are tax-deductible.

Individuals who hold shares as non-business (private) assets are entitled to a so-called exclusion from net investment income (*Sparerfreibetrag*) in the amount of EUR 1,370 or EUR 2,740 (married couples assessed jointly) per calendar year. In addition, such persons are entitled to a lump-sum deduction in the amount of Euro 51 or EUR 102 (married couples assessed jointly) for income-producing expenses (*Werbekostenpauschale*), unless proof of higher income-producing expenses is furnished. Fifty percent of the shareholder's dividends and other investment income are subject to taxation only if and to the extent they exceed the exclusion from net investment income after deduction of actual income-producing expenses (in the case of dividends, only a 50 per cent. deduction applies) or the lump-sum deduction for income-producing expenses.

If the shares form part of a business property, taxation depends upon whether the shareholder is a corporation, sole proprietor, or partnership (co-entrepreneurship).

- (i) Subject to certain exceptions for companies in the finance and insurance sector generally 95 per cent. of dividends received by resident corporations are exempt from corporate income tax and the solidarity surcharge; 5 per cent. of dividends are considered lump-sum non-deductible business expenses and as such are subject to corporate income tax (plus solidarity surcharge). Apart from that, actual business expenses directly related to the dividends are deductible. No minimum shareholding limit or minimum holding period applies. If the shares form part of the business property of a commercial enterprise, the full amount of any dividends remaining after deduction of business expenses having an economic nexus to the dividends is, however, subject to trade tax, unless the corporation held at least 10 per cent. of the Company's registered share capital as of the beginning of the relevant tax assessment period.
- (ii) If the shares form part of the business property of a sole proprietor, 50 per cent. of dividends are considered income for purposes of calculating the shareholder's income tax burden. Only 50 per cent. of business expenses having an economic nexus to the dividends are tax-deductible. If the shares form part of the business property of a permanent establishment maintained in Germany by a commercial enterprise, the dividends are, after deduction of any business expenses having an economic nexus to the dividends, furthermore subject to trade tax in the full amount, unless the taxpayer held

at least 10 per cent. of the Company's registered share capital as of the beginning of the relevant tax assessment period. Trade tax is credited against the shareholder's personal income tax burden in accordance with a lump-sum tax credit method.

- (iii) If a partnership is a shareholder, personal income tax or corporate income tax is assessed only at the level of each partner. Taxation depends upon whether the partner is a corporation or an individual: if the partner is a corporation, 95 per cent. of dividends are generally tax-exempt (see subsection (i) above). If the partner is an individual, 50 per cent. of dividends are subject to personal income tax, plus solidarity surcharge (see subsection (ii) above). If the shares form part of the business property of a permanent establishment maintained in Germany by a commercial enterprise of the partnership, the dividends are, after deduction of any business expenses having an economic nexus to the dividends, also subject to trade tax at the level of the partnership, in the opinion of the German tax authorities, in the full amount, unless the partnership held at least 10 per cent. of the Company's registered share capital at the beginning of the relevant tax assessment period. If the partner is an individual, trade tax paid by the partnership is credited against the partner's personal income tax burden in accordance with a lump-sum tax credit method.

Non-resident shareholders

If shareholders (individuals and corporations) who are subject to non-resident taxation in Germany holds shares as part of the business property of a permanent establishment or fixed base in Germany or as part of a business property for which a permanent representative in Germany has been appointed, dividend withholding tax (including the solidarity surcharge) withheld and paid to the German tax authorities is credited against the respective shareholder's personal income or corporate income tax burden or, if the dividend withholding tax withheld exceeds the amount of the shareholder's personal income or corporate income tax burden, or is refunded to the shareholder in the amount of overpayment. In all other cases, the withholding of dividend withholding tax (as reduced, if applicable, by a double taxation treaty) discharges any tax liability of the shareholder in Germany. Unless a double taxation treaty applies or dividends are distributed to a company within the meaning of Article 2 of the so-called "Parent-Subsidiary Directive" (EC Directive 90/435/EEC of the Council dated July 23, 1990) residing in a member state of the European Union, tax refunds are generally not available.

If the shares are held by an individual as part of the business property of a permanent establishment or fixed base in Germany or as part of a business property for which a permanent representative in Germany has been appointed, 50 per cent. of dividends received are subject to German income tax, plus solidarity surcharge. If the shares form part of the business property of a permanent establishment maintained by a commercial enterprise in Germany, dividends are also subject to trade tax in the full amount after deduction of any business expenses having an economic nexus to the dividends, unless the taxpayer held at least 10 per cent. of the Company's registered share capital at the beginning of the relevant tax assessment period. Trade tax paid is generally credited against the shareholder's personal income tax burden in accordance with a lump-sum tax credit method.

Subject to certain exceptions for companies in the finance and insurance sector, 95 per cent. of dividends received by foreign corporations subject to non-resident taxation in Germany are exempt from corporate income tax and the solidarity surcharge, provided that the shares form part of the business property of a permanent establishment or a fixed base in Germany or form part of a business property for which a permanent representative in Germany has been appointed; 5 per cent. of dividends are considered lump-sum non-deductible business expenses and as such are subject to corporate income tax (plus solidarity surcharge). If the shares form part of the business property of a permanent establishment in Germany, dividends are also subject to trade tax after deduction of any business expenses having an economic nexus to the dividends, unless the corporation held at least 10 per cent. of the Company's registered share capital at the beginning of the relevant tax assessment period.

13.2.4 Taxation of Capital Gains

Resident shareholders

Capital gains from the sale of shares held as non-business (private) assets by an individual who is a tax resident of Germany are generally subject to income tax, plus solidarity surcharge, if the shares are sold within one year of the date of acquisition. The tax base is generally 50 per cent. of the capital gains. Capital gains are not taxed if, in combination with other profits from personal sales transactions in the same calendar year, they total less than EUR 512. Losses from the sale of shares may be offset only by profits from personal sales transactions in the same calendar year or, absent such profits, by profits from personal sales transactions in the previous year or, subject to certain limitations, in subsequent years.

If the shares are held as non-business (private) assets of an individual who is a tax resident of Germany, generally 50 per cent. of capital gains from the sale of shares are subject to taxation based upon the applicable individual income tax rate, plus solidarity surcharge in the amount of 5.5 per cent. thereon, even after expiration of the aforementioned one-year period, if the individual or, in the event of a gratuitous transfer, the individual's legal predecessor or, in the event of several gratuitous transfers, any legal predecessor of the individual has, at any point in time during the five years immediately preceding the sale, held, directly or indirectly, at least 1 per cent. of the capital of the Company. Generally only 50 per cent. of losses from the sale of shares and 50 per cent. of expenses having an economic nexus thereto may be claimed as tax deductions.

If the shares form part of a business property, taxation depends upon whether the shareholder is a corporation, sole proprietor, or partnership (co-entrepreneurship).

- (i) Subject to certain exceptions for companies in the finance and insurance sector, 95 per cent. of capital gains from the sale of shares earned by taxpayers resident in Germany and subject to corporate income tax are - generally irrespective of the amount of the investment and how long the sold shares were held - exempt from corporate income tax and the solidarity surcharge; 5 per cent. of capital gains are considered lump-sum non-deductible business expenses and as such are subject to corporate income tax (plus solidarity surcharge) and, if the shares form part of the business property of a commercial enterprise, trade tax. Losses from the sale of shares or any other reductions of profits related to the sold shares do not qualify as tax-deductible business expenses.
- (ii) If the shares form part of the business property of a sole proprietor who is a tax resident of Germany, capital gains from the sale of shares are always subject to income tax, plus solidarity surcharge, and, if the shares form part of the business property of a permanent establishment maintained in Germany by a commercial enterprise, also to trade tax. The tax base is 50 per cent. of the capital gains from the sale of shares. Only 50 per cent. of losses from the sale of shares and 50 per cent. of expenses having an economic nexus thereto may be claimed as tax deductions. Trade tax generally is credited against the shareholder's personal income tax burden in accordance with a lump-sum tax credit method. Provided that certain requirements are satisfied, capital gains from the sale of shares in corporations may for a limited period of time be deducted from the acquisition costs of certain other assets up to the amount of EUR 500,000.
- (iii) If the shareholder is a partnership, personal income tax or corporate income tax is assessed only at the level of each partner. Taxation depends upon whether the partner is a corporation or an individual: if the partner is a corporation, 95 per cent. of capital gains generally are tax-exempt (see subsection (i) above). If the partner is an individual, 50 per cent. of capital gains are subject to income tax, plus solidarity surcharge (see subsection (ii) above). If the shares form part of the business property of a permanent establishment maintained in Germany by a commercial enterprise of the partnership, capital gains from the sale of shares are also subject to trade tax at the level of the partnership, in the opinion of the German tax authorities, in the full amount. If the partner is an individual,

trade tax paid by the partnership is generally credited against the partner's personal income tax burden in accordance with a lump-sum tax credit method.

Non-resident shareholders

If the shares are sold by an individual who resides abroad and is subject to non-resident taxation in Germany, and if (i) such individual holds the shares as part of the business property of a permanent establishment or fixed base in Germany or as part of a business property for which a permanent representative in Germany has been appointed, or (ii) such natural person or, in the event of a gratuitous transfer of the shares, his or her legal predecessor held, at any point in time during the five years immediately preceding the sale of the shares, directly or indirectly, at least 1 per cent. of the capital of the Company, 50 per cent. of capital gains are subject to German income tax, plus 5.5 per cent. solidarity surcharge thereon, and, if the shares form part of the business property of a permanent establishment maintained in Germany by a commercial enterprise, also to trade tax. Except in case (i) above, however, most double taxation treaties provide for full exemption from German taxation.

Subject to certain exceptions for companies in the finance and insurance sector, 95 per cent. of capital gains earned by foreign corporations subject to non-resident taxation in Germany are exempt from corporate income tax and the solidarity surcharge; 5 per cent. of capital gains are considered non-deductible business expenses and as such are subject to corporate income tax (plus solidarity surcharge) provided that the shares form part of the business property of a permanent establishment or a fixed base in Germany or form part of a business property for which a permanent representative in Germany has been appointed. The same applies if the foreign corporation has, at any point in time during the five years immediately preceding the sale of the shares, held, directly or indirectly, at least 1 per cent. of the capital of the Company; in these circumstances, however, most double taxation treaties exempt the capital gains from German taxation. If the shares form part of the business property of a permanent establishment maintained in Germany by a commercial enterprise, 5 per cent. of the capital gains are subject to trade tax. Losses from the sale of shares or other reductions of profits related to the sold shares generally do not qualify as tax-deductible business expenses.

13.2.5 Special treatment of companies in the finance and insurance sector

If financial institutions or financial services providers hold or sell shares which are to be assigned to the trading book (Handelsbuch) pursuant to sec. 1 (12) of the German Banking Act (Gesetz über das Kreditwesen), neither dividends nor capital gains are subject to the half-income method or the 95 per cent. exemption from corporate income tax and any applicable trade tax. The same applies to shares acquired by a financial enterprise within the meaning of the German Banking Act that has acquired the shares for the purpose of deriving gain from short-term proprietary trading. This rule also applies to financial institutions, financial services providers, and financial enterprises that are domiciled in a member state of the European Community or another country that is a signatory to the Treaty on the European Economic Area provided that, with respect to their dividends and their capital gains, they are subject to German tax in accordance with the general principles described above.

The 95 per cent. exemption from corporate income tax and any applicable trade tax is also inapplicable to dividends from shares held by life insurance companies or health insurance companies that are to be assigned to capital investments, and to capital gains from the sale of such shares. The same applies to pension funds.

13.2.6 Inheritance and Gift Tax

The transfer of shares to another person by gift or causa mortis generally is a subject to the German inheritance or gift tax only if:

- (i) the decedent, donor, heir, beneficiary, or any other transferee maintains a residence or has his or her habitual abode in Germany at the time of the transfer, or

- (ii) the shares are held by the decedent or donor as part of a business property for which a permanent establishment is maintained in Germany or for which a permanent representative in Germany has been appointed; or
- (iii) the decedent or donor, either individually or collectively with related parties, holds, directly or indirectly, at least 10 per cent. of the Company's registered share capital at the time of the inheritance or gift.

Special rules apply to certain German citizens as well as certain former German citizen who maintain neither a residence nor their habitual abode in Germany.

The few German inheritance tax treaties currently in force usually provide that German inheritance or gift tax may only be assessed in case (i) and, subject to certain restrictions, in case (ii).

13.2.7 Other Taxes

No German transfer tax, value-added tax, stamp duty, or similar taxes are assessed on the purchase, sale or other transfer of shares. Provided that certain requirements are met, business owners may however opt for the payment of value-added tax on transactions that are otherwise tax-exempt. No net wealth tax is currently imposed in Germany.

14 CREST, settlement and DIs

With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a Depository Interest arrangement established by the Company. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to request the same from the Company.

The Ordinary Shares will not themselves be admitted to CREST. Instead, pursuant to a method proposed by CRESTCo under which transactions in international securities may be settled through the CREST system, the Company has arranged for the UK Registrar, Computershare Investor Relations PLC, to issue dematerialised depository interests representing entitlements to Ordinary Shares, known as Depository Interests or "DIs". The DIs will be independent securities constituted under English Law which may be held and transferred through the CREST system. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares.

The agreement under which the Company has appointed the Depository to provide the DI arrangements is summarised in paragraph 15 below.

The DIs will be created pursuant to, and issued on the terms of, a deed poll executed by the Depository in favour of the holders of the DIs from time to time (the "Deed Poll"). Prospective holders of DIs should note that they will have no rights in respect of the underlying Ordinary Shares or the DIs representing them against CRESTCo or its subsidiaries. Ordinary Shares will be transferred by the custodian to the Depository on the German Register and the Depository will issue DIs to participating CREST members. Each DI will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends. The Depository will pass on to DI Holders any stock or cash benefits received by it as holder of Ordinary Shares on trust for such DI Holder. DI Holders will also be able to receive notices of meetings of holders of Ordinary Shares and other notices issued by the Company to its Shareholders through the Custodian.

15 Depository Interests - Terms of the Deed Poll

Prospective purchasers of the Ordinary Shares are referred to the Deed Poll available for inspection at the offices of Evolution Securities. In summary, the Deed Poll contains, among other things, provisions to the following effect which are binding on holders of DIs ("DI Holders"):

- (a) the Depository will hold (itself or through its nominated custodian, Computershare Company Nominees Ltd. ("Custodian")), as bare trustee, the underlying securities issued by the Company and

all and any rights and other securities, property and cash attributable to the underlying securities pertaining to the DIs for the benefit of the holders of the relevant DIs.

- (b) DI Holders warrant, among other things, that the securities in the Company transferred or issued to the Custodian on behalf of the Depositary are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's constitutional documents or any contractual obligation, law or regulation.
- (c) The Depositary and Custodian must pass on to DI Holders and exercise on behalf of DI Holders all rights and entitlements received or to which they are entitled in respect of the underlying securities which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to call for, attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form which they are received together with any amendments and additional documentation necessary to effect such passing-on, or, as the case may be, exercised in accordance with the Deed Poll.
- (d) The Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any DI Holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, the Depositary's liability to a holder of DIs will be limited to the lesser of (a) the value of the Ordinary Shares and other deposited property properly attributable to the DIs to which the liability relates and (b) that proportion of £5 million which corresponds to the portion which the amount the Depositary would otherwise be liable to pay to the DI Holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all DI Holders in respect of the same act, omission or event or, if there are no such amounts, £5 million.
- (e) The Depositary is entitled to charge DI Holders fees and expenses for the provision of its services under the Deed Poll.
- (f) Each DI Holder is liable to indemnify the Depositary and the Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of DIs held by that holder, other than those resulting from the wilful default, negligence or fraud of the Depositary, or the Custodian of the same group or the Depositary shall have failed to exercise reasonable care in the appointment and continued use and supervision of any custodian or agent.
- (g) The Depositary may terminate the Deed Poll by giving at least 90 days' notice. During such period, holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Depositary must, among other things, deliver the deposited property in respect of the DIs to the relevant DI Holders or, at its discretion sell all or part of such deposited property. It shall, as soon as reasonable practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll *pro rata* to DI Holders in respect of their DIs.
- (h) The Depositary or the Custodian may require from any holder or former or prospective holder of DIs information as to the capacity in which DIs are owned or held and the identity of any other person with any interest of any kind in such DIs or the underlying Ordinary Shares and the DI Holders are bound to provide such information requested. Furthermore, to the extent that, among other things, the Company's constitutional documents require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of, or interests of any kind whatsoever, in the Company's securities, the DI Holders are to comply with such provisions and with the Company's instructions with respect thereto. It should also be noted that DI Holders may not have the opportunity to exercise all of the rights and entitlements available to holders of Ordinary Shares including, for example, the ability to

vote on a show of hands. In relation to voting, it will be important for DI Holders to give prompt instructions to the Depositary or the Custodian, in accordance with any voting arrangements made available to them, to vote the underlying Ordinary Shares on their behalf or, to the extent possible, to take advantage of any arrangements enabling DI Holders to vote such Ordinary Shares as a proxy of the Depositary or the Custodian.

16 The Depositary Agreement

The terms of the depositary agreement (“Depositary Agreement”) dated 14 September 2005 between the Company and the Depositary under which the Company has appointed the Depositary (or its subsidiary, Computershare GmbH) to issue the DIs on the terms of the Deed Poll and to provide certain other services in connection with the DIs, are summarised below.

- (a) the Depositary agrees to provide certain depositary and custodian services under the Depositary Agreement (“Depositary and Custodian Services”) with reasonable skill and care and in accordance with the FSMA and the CREST Regulations. The services include complying with the provisions of the Deed Poll, maintaining a depositary interest register and dealing with routine correspondence with DI Holders.
- (b) The agreement is for an initial fixed term at which point, either party may give the other party notice to terminate the agreement. The agreement may be terminated in certain other circumstances.
- (c) The Company agrees to provide to the Depositary all information, data and documentation reasonably required by the Depositary to carry out the Depositary and Custodian Services.
- (d) Each party gives certain undertakings in relation to compliance with relevant data protection legislation.
- (e) The Depositary is entitled, by serving prior written notice on the Company, to amend the Depositary Agreement if it is reasonably necessary to do so to reflect any change to CREST services or law.
- (f) The Depositary is to indemnify the Company against any loss arising as a result of the fraud, negligence or wilful default of Computershare (including agents engaged by Computershare to carry out the Depositary or Custodian Services) or which arises out any breach of the terms of the Depositary Agreement or the Deed Poll.
- (g) The Company is to pay certain fees and charges including, among other things, an annual fee, a fee based on the number of DIs held in each month and certain CREST related fees. The Depositary is also entitled to recover out of pocket fees and expenses.

17 Consents

- 17.1 Evolution Securities has given and not withdrawn its written consent to the issue of this document and the references to itself in the form and context in which they appear.
- 17.2 Ernst & Young LLP, has given and has not withdrawn its written consent to the inclusion of its report in relation to the Company contained in Part III and the references thereto in the form and context in which they appear.

18 General information

- 18.1 The promoters and main founding shareholders of the Company are Heinz Bons and Rudolf van Megen. No cash, securities or other benefits have been paid, issued or given within the two years immediately preceding the date of publication of this document, nor are any proposed to be paid, issued or given to any such promoter in his capacity as a promoter.
- 18.2 Save as disclosed in this document no person (other than professional advisers named in this document and trade suppliers) has:
 - 18.3 received, directly or indirectly, from the Company within the 12 months preceding the application for Admission; or

- 18.4 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission, any of the following:
- (i) fees totalling £10,000 or more;
 - (ii) securities in the Company with 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 Admission.
- 18.5 Evolution Securities has been appointed as nominated adviser to the Company. Under the AIM Rules the nominated adviser owes certain responsibilities to the London Stock Exchange. In accordance with the AIM Rules, Evolution Securities has confirmed to the London Stock Exchange that it has satisfied itself that the Directors of the Company have received independent advice and guidance as to the nature of their responsibilities and obligations under the AIM Rules and that, to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with. Evolution Securities has also satisfied itself that the content of this document has been appropriately verified. In giving its confirmation to the London Stock Exchange, Evolution Securities has not made its own enquiries except as to matters which have come to its attention and on which it considered it necessary to satisfy itself. No liability whatsoever is accepted by Evolution Securities for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which the Company and the Directors are solely responsible.
- 18.6 The financial information relating to the Company set out in Part III does not comprise statutory accounts as referred to in section 240 of the Companies Act 1985.
- 18.7 Application will be made to the London Stock Exchange for the existing Ordinary Shares and the new Ordinary Shares to be issued pursuant to the Placing to be admitted to trading on AIM. It is expected that dealings in the Ordinary Shares will commence on 20 September 2005.
- 18.8 The total costs, charges and expenses (including professional fees, stamp duty, and stamp duty reserve tax and costs of printing and distribution of documents, and the fees referred to in paragraph 18.4 above) payable by the Company in relation to Admission and the Placing are estimated to amount to approximately £1.1 million (excluding valued added tax).
- 18.9 The Company is not dependent on any patents or any other intellectual property rights, licences or particular contracts, which are or may be of fundamental importance to the Company's business.
- 18.10 Monies received from applicants pursuant to the Placing will be held by Evolution Securities and Sal. Oppenheim until such time as the Placing Agreement becomes unconditional in all respects.
- 18.11 Share certificates representing the Ordinary Shares to be issued pursuant to the Placing are expected to be dispatched to applicants who do not wish to receive shares in uncertificated form by post at their risk on Admission. Temporary documents of title will not be issued in connection with the Placing.
- 18.12 Under the Placing, placees who are system-members (as defined in the CREST Regulations) may elect to have the Ordinary Shares allocated to them in uncertificated form as Depositary Interests through CREST.
- 18.13 Save as disclosed in this document, there have been no significant recent trends concerning the development of the Company's business since 31 December 2004.
- 18.14 Save as disclosed in this document, there are no principal investments in progress or under active consideration and on which the Board has made firm commitments.
- 18.15 Save as disclosed in this document, the Company has made no principal investments during the period covered by the financial information set out in Part III of this document.
- 18.16 Save as referred to in this document, there are no environmental issues that may affect the Group's utilisation of its tangible fixed assets.

- 18.17 Save as disclosed in this document there have been no significant recent trends in production, sales and inventory and costs and selling prices of the Group since 31 December 2004, being the end of the last completed financial year of the Company and the Directors are not aware of any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the prospects of the Group for at least the current financial year.
- 18.18 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 30 June 2005, the date of the most recent interim financial information.
- 18.19 The information in this document which has been sourced from third parties has been accurately reproduced and, so far as the Directors are aware (and are able to ascertain from the information published by such third parties), no facts have been omitted which would render such information inaccurate or misleading

14 September 2005

