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This document, which comprises an AIM admission document drawn up in accordance with the AIM Rules for Companies, has been issued in connection with the application for Admission. This document does not contain an offer or constitute any part of an offer to the public within the meaning of sections 85 and 102B of the FSMA or otherwise. This document is not an approved prospectus for the purposes of section 85 of the FSMA and a copy of it has not been, and will not be, delivered to the Financial Services Authority in accordance with the Prospectus Rules, or approved by any other authority which could be a competent authority for the purposes of the Prospectus Directive.

The Directors, whose names and functions appear on page 12 of this document, accept responsibility (both individually and collectively) for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application will be made for the Enlarged Issued Share Capital of the Company to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 2 March 2011.

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. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document. The Ordinary Shares are not dealt in on any other recognised investment exchange and no other such applications have been made.

CORERO PLC

*(incorporated and registered in England and Wales under the Companies Act 1985,
registered number 02662978)*

Proposed Acquisition of Top Layer Networks, Inc.

Placing of up to 6,571,429 new Ordinary Shares at 35p per share

Admission of the Enlarged Issued Share Capital to trading on AIM

Notice of General Meeting

Nominated Adviser and Broker



finnCap, which is authorised and regulated in the United Kingdom by the FSA, is acting as Nominated Adviser and Broker to the Company and no one else in connection with the Placing, the Acquisition and Admission and will not be responsible to any person other than the Company for providing the regulatory and legal protections afforded to customers (as defined by the FSA Rules) of finnCap nor for providing advice in relation to the contents of this document or any matter, transaction or arrangement referred to in it. The responsibilities of finnCap, as Nominated Adviser under the AIM Rules for Nominated Advisers, are owed solely to London Stock Exchange and are not owed to the Company or to any Director or Shareholder of the Company or to any other person in respect of their decision to acquire Ordinary Shares in reliance on any part of this document.

Notice convening a general meeting of Corero to be held at finnCap's offices at 60 New Broad Street, London, EC2M 1JJ at 11.00 a.m. on 1 March 2011 is set out at the end of this document. The enclosed Form of Proxy for use at the general meeting should be completed and returned to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU as soon as possible and to be valid must arrive no later than 11.00 a.m. on 25 February 2011.

This document does not constitute an offer to buy or to subscribe for, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. The Ordinary Shares have not been, and will not be, registered in the United States of America under the United States Securities Act of 1933 (as amended) (the “Securities Act”) or qualified for sale under the laws of any state of the United States or under the applicable laws of any of Canada, Australia, the Republic of South Africa, or Japan and, may not be offered or sold in the United States of America, Canada, Australia, the Republic of South Africa, or Japan or to, or for the account or benefit of, US persons (as such term is defined in Regulation S under the Securities Act) or to any national, resident or citizen of Canada, Australia, the Republic of South Africa, or Japan. Neither this document nor any copy of it may be sent to or taken into the United States, Canada, Australia, the Republic of South Africa, or Japan, nor may it be distributed to any US person (within the meaning of Regulation S under the Securities Act). In addition, the securities to which this document relates must not be marketed into any jurisdiction where to do so would be unlawful.

The Placing is conditional, *inter alia*, on Admission taking place on or before 2 March 2011 (or such time and date as finnCap may specify being not later than 31 March 2011). The Placing Shares and the Completion Consideration Shares will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company.

The information contained in this document has been prepared solely for the purposes of the Placing, the Acquisition and Admission and is not intended to inform or be relied upon by any subsequent purchasers of Ordinary Shares (whether on or off exchange) and accordingly no duty of care is accepted in relation to them. Without limiting the statutory rights of any person to whom this document is issued, no representation or warranty, express or implied, is made by finnCap as to the contents of this document. finnCap has not authorised the contents of any part of this document. No liability whatsoever is accepted by finnCap for the accuracy of any information or opinions contained in this document, for which the Directors are solely responsible, or for the omission of any information from this document for which it is not responsible.

Forward-Looking Statements

This document contains certain forward looking statements relating to the Enlarged Group’s future prospects, developments and business strategies.

Forward looking statements are identified by their use of terms and phrases such as “targets” “estimates”, “envisages”, “believes”, “expects”, “aims”, “intends”, “plans”, “will”, “may”, “anticipates”, “would”, “could” or similar expressions or the negative of those, variations or comparable expressions, including references to assumptions.

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

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

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TRANSACTION STATISTICS

Number of Ordinary Shares in issue at date of this document	31,963,434
Number of Completion Consideration Shares to be issued	9,038,855
Number of Placing Shares ¹	6,571,429
Placing Price	35p
Estimated gross proceeds of the Placing ¹	£2,300,000
Estimated net proceeds of the Placing receivable by the Company ^{1 2}	£1,790,000
Enlarged Issued Share Capital immediately following Admission ³	47,573,718
Maximum number of Deferred Consideration Shares to be issued	177,145
Percentage of Enlarged Issued Share Capital represented by the Completion Consideration Shares ¹	19.0 per cent.
Percentage of Enlarged Issued Share Capital represented by the Placing Shares ¹	13.8 per cent.
Market capitalisation of the Company immediately following Admission ¹ at the Placing Price	£16.65 million
ISIN	GB00B54X0432

Notes:

- 1 Assuming the Placing is fully subscribed.
- 2 Net of estimated costs for the Placing and the Acquisition.
- 3 Excludes any Deferred Consideration Shares.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of Admission Document	7 February 2011
Latest time and date for receipt of Forms of Proxy	11.00 a.m. on 25 February 2011
General Meeting	11.00 a.m. on 1 March 2011
Completion of the Acquisition	7.30 a.m. on 2 March 2011
Expected date of Admission and dealings in the Enlarged Issued Share Capital expected to commence on AIM	8.00 a.m. on 2 March 2011
CREST accounts to be credited	2 March 2011
Despatch of definitive share certificates (where applicable)	by 18 March 2011

Notes:

- (1) Each of the times and dates above is subject to change. Any such change will be notified to Shareholders by an announcement on a Regulatory Information Service.
- (2) References to times in this Admission Document are to London time (unless otherwise stated).

FOREIGN CURRENCY AMOUNTS

Where relevant in this document, unless otherwise stated, USD amounts have been converted into British pound sterling at an exchange rate of USD1.61: £1 (being the closing mid-point exchange rate set out in the Financial Times on 4 February 2011 (being the latest practicable date prior to the publication of this document)).

DEFINITIONS

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

“\$”, “USD” and “US dollar”	the lawful currency for the time being of the United States of America
“£”, “British pound sterling” and “pence”	the lawful currency for the time being of the United Kingdom
“1985 Act”	the Companies Act 1985 (as amended)
“2006 Act”	the Companies Act 2006 (as amended)
“Acquisition”	the proposed acquisition by the Company of the whole of Top Layer’s existing issued share capital to be effected by way of a merger under Delaware law of Tomcat Sub with and into Top Layer pursuant to the Merger Agreement
“Admission”	the admission of the Enlarged Issued Share Capital to trading on AIM becoming effective in accordance with the AIM Rules for Companies
“Admission Document”	this document
“AIM”	the market of that name operated by the London Stock Exchange
“AIM Rules for Companies”	the AIM Rules for Companies published by the London Stock Exchange, as amended from time to time which sets out the rules, responsibilities and guidance notes in relation to companies whose shares are admitted to trading on AIM
“AIM Rules for Nominated Advisers”	the AIM Rules for Nominated Advisers published by the London Stock Exchange, as amended from time to time
“Articles”	the articles of association of the Company
“August 2010 Transaction”	the disposal by Corero of its Financial Markets division, the compromise of £2,000,000 of the CULS, the offer to redeem £2,000,000 of CULS by the Company and a subscription and placing to raise in aggregate £6,500,000, as detailed in circular to Shareholders dated 14 July 2010
“Capita”	Capita Registrars Limited
“Change of Control Agreements”	change of control agreements dated 8 December 2010 between Top Layer and each member of the Top Layer Management Team which provide for certain payments to be made by Top Layer to the Top Layer Management Team on a change of control of Top Layer
“Common Shares”	Common Shares of \$0.01 each in the capital of Top Layer
“Companies Acts”	the 2006 Act and any provisions of the 1985 Act which remain in force
“Company” or “Corero”	Corero plc
“Completion”	completion of the Merger Agreement and the merger becoming effective in accordance with its terms

“Completion Consideration Shares”	the 9,038,855 Ordinary Shares to be issued on Completion to the Principal Stockholders and to the members of the Top Layer Management Team pursuant to the Merger Agreement
“Consideration Loan Notes”	loan notes in the aggregate principal amount of \$5,000,000 to be issued by Top Layer, and secured over the assets of Top Layer, to the Principal Stockholders pursuant to the Merger Agreement
“Corero Options”	the options over (i) 140,000 Ordinary Shares in favour of Andrew Miller under the Deferred Payment Plan; (ii) 125,000 Ordinary Shares in favour of Bernard Snowe under the EMI Option Scheme; and (iii) 40,000 in favour of Duncan Swallow under the EMI Option Scheme, in each case to be granted as soon as reasonably practicable after the Company publishes its results for the year ended 31 December 2010
“Corero Systems”	Corero Systems Limited, a wholly owned subsidiary of the Company
“CREST”	the electronic system for the holding and transferring of shares and other securities in paperless form operated by Euroclear UK & Ireland Limited
“CULS”	the £4,000,000 nominal of 8 per cent. convertible unsecured redeemable loan stock of the Company, cancelled from trading on AIM with effect from 21 August 2010 and in respect of which the Company has no obligations
“Deferred Consideration Shares”	the 177,145 Ordinary Shares to be issued to the Top Layer Management Team within 30 days after the date that is 18 months after Completion subject to adjustment for set off against warranty claims in accordance with the terms of the Merger Agreement
“Deferred Payment Plan”	the deferred payment plan and employee share ownership trust summarised in paragraph 5.4 of Part V of this document
“Deferred Shares”	the 1,518,990 deferred shares of £2.99 each in the capital of the Company
“Directors” or “Board”	the directors of the Company (“each a Director”) whose names appear on page 12 of this document
“EMI Option Scheme”	the plan summarised in paragraph 5.1 of Part V of this document
“Enlarged Group”	the Company and its Subsidiaries (including Top Layer) following Completion
“Enlarged Issued Share Capital”	the issued ordinary share capital of the Company as it will be immediately following the issue of the Placing Shares (assuming that the Placing is fully subscribed) and the Completion Consideration Shares
“Escrow Agreement”	the escrow agreement to be dated 2 March 2011 between the Company, the Principal Stockholders and U.S. Bank National Association (the “Escrow Agent”), pursuant to which an amount of \$500,000 will be deposited with the Escrow Agent for the purpose of satisfying certain claims made by the Company under the indemnity contained in the Merger Agreement

“Escrow Deposit”	the cash sum of \$500,000, comprising part of the consideration payable by the Company for the Acquisition to be paid into an escrow account on Completion to be held by US Bank National Association to cover potential warranty claims pursuant to the terms of the Escrow Agreement
“Executive EMI Scheme”	the plan summarised in paragraph 5.2 of Part V of this document
“Existing Ordinary Shares”	the 31,963,434 Ordinary Shares in issue at the date of this document
“finnCap”	finnCap Ltd, nominated adviser and broker to the Company
“Form of Proxy”	the form of proxy accompanying this document for use in connection with the General Meeting
“FSA”	the Financial Services Authority
“FSMA”	the Financial Services and Markets Act 2000 (as amended)
“General Meeting”	the general meeting of the Company to be held at the offices of finnCap at 11.00 a.m. on 1 March 2011 (or any adjournment thereof), notice of which is set out at the end of this document
“Group”	the Company and its Subsidiaries (excluding Top Layer and its subsidiaries) at the date of this document
“HMRC”	Her Majesty’s Revenue & Customs
“IFRS”	International Financial Reporting Standards as adopted by the EU
“Lock-In Deeds”	the Principal Stockholders Lock-In Deed and the Management Lock-In Deed
“London Stock Exchange”	London Stock Exchange plc
“Management Lock-In Deed”	the lock-in deed between the Company, finnCap and each member of the Top Layer Management Team dated 7 February 2011
“Management Preferred Shares”	preferred shares in the capital of Top Layer constituted by Series CC-1 Preferred Shares, Series CC-2 Preferred Shares, Series CC-3 Preferred Shares, Series CC-4 Preferred Shares, Series CC-5 and Preferred Shares Series CC-6, each at \$0.01 par value per share
“Merger Agreement”	the merger agreement dated 7 February 2011 between the Company, the Principal Stockholders, Tomcat Sub and Top Layer pursuant to which, conditional, <i>inter alia</i> , upon the passing of Resolutions numbered 1, 2 and 4, the Acquisition will be effected, a summary of which is set out in paragraph 10.1.1 of Part V of this document
“Noteholder Preferred Shares”	preferred shares in the capital of Top Layer constituted by Series BB-1 Preferred Shares and Series BB-2 Preferred Shares, each at \$0.01 par value per share
“Ordinary Shares”	ordinary shares of 1 pence each in the capital of the Company
“Placees”	the subscribers for Placing Shares pursuant to the Placing
“Placing”	the conditional placing by finnCap of the Placing Shares at the Placing Price pursuant to the terms of the Placing Agreement

“Placing Agreement”	the conditional agreement dated 7 February 2011 between the Company and finnCap, details of which are set out in paragraph 10.1.5 of Part V of this document
“Placing Price”	35p per Placing Share
“Placing Shares”	up to 6,571,429 new Ordinary Shares which are the subject of the Placing
“Preferred Shares”	Series AA Preferred Shares of \$0.01 each in the capital of Top Layer
“Principal Stockholders”	CrossHill Debt II, L.P., CrossHill Georgetown Capital, L.P. and Loudwater Trust Limited who, together, own 98 per cent. of the issued and outstanding capital stock of Top Layer
“Principal Stockholders Lock-In Deed”	the lock-in deed between the Company, finnCap and each of the Principal Stockholders dated 7 February 2011
“QCA”	Quoted Companies Alliance
“Relationship Agreement”	the board representation and observer rights agreement dated 7 February 2011 between the Company, CrossHill Debt II, L.P., CrossHill Georgetown Capital, L.P. and Loudwater Trust Limited, a summary of which is set out in paragraph 10.1.2 of Part V of this document
“Resolutions”	the resolutions to be proposed at the General Meeting (and each a “Resolution”) set out in the Notice of General Meeting at the end of this document
“Shareholders”	holders of Ordinary Shares
“Share Option Schemes”	the Company’s Executive EMI Scheme adopted on 10 August 2010 (and amended on 15 December 2010), EMI Option Scheme adopted on 20 April 2001 (and amended on 15 September 2010 and 15 December 2010), Unapproved Share Option Plan adopted on 10 August 2010 (and amended on 15 December 2010) and Deferred Payment Plan (ESOT) adopted on 2 September 2010 (and amended on 15 December 2010)
“SHF”	Sand Hill Finance, LLC
“Special Bonus Plan”	a Top Layer plan dated 8 December 2010 which provides for certain payments to be made to the Top Layer employees (excluding the Top Layer Management Team) on a change of control
“Subsidiary”	a subsidiary undertaking (as defined by section 1162 of the Companies Act 2006 (as amended)) of the Company and “Subsidiaries” shall be construed accordingly
“Takeover Code”	the City Code on Takeovers and Mergers
“Takeover Panel” or “Panel”	the Panel on Takeovers and Mergers
“Tomcat Sub”	Tomcat Sub, Inc., a wholly owned subsidiary of the Company
“Top Layer”	Top Layer Networks, Inc, a Delaware corporation
“Top Layer Group”	Top Layer and its subsidiaries at the date of this document (including Top Layer International, Inc., Top Layer B.V., Top Layer Ltd and Top Layer Japan K.K.)

“Top Layer Management Team”	the management team of Top Layer being Peter Rendall, Paul Bogonis, Mike Cooper, Mike Paquette, Barry Spinney and James Williams
“Top Layer Options”	the 675,000 share options to be granted to the Top Layer Management Team and Top Layer employees under the Unapproved Share Option Plan conditional on Completion and the Merger becoming effective
“UK”	United Kingdom
“Unapproved Share Option Plan”	the plan summarised in paragraph 5.3 of Part V of this document
“US”	United States of America
“US GAAP”	generally accepted accounting principles in the US

TECHNICAL GLOSSARY

“Academy”	a school in the education system in England that is directly funded by central government (the Department for Education) and is independent of local government control, including both sponsored academies and non-sponsored academies, introduced by the coalition government
“ASIC”	Application-Specific Integrated Circuit
“CPU”	Central Processing Unit
“DoS” and “DDoS”	a denial-of-service attack or distributed denial-of-service attack is an attempt to make a computer resource unavailable to its intended users. Although the means to carry out, motives for, and targets of a DoS attack may vary, DoS attacks generally consist of the concerted efforts of a person or people to prevent an Internet site or service from functioning efficiently or at all, temporarily or indefinitely. One common method of attack involves saturating the target computer with external communications requests such that it cannot respond to legitimate traffic or responds so slowly as to be rendered effectively unavailable. In general terms, DoS attacks are implemented by either forcing the targeted computer(s) to reset, or consuming its resources so that it can no longer provide its intended service or obstructing the communication media between the intended users and the victim so that they can no longer communicate adequately
“Firewall”	part of a computer system or network that is designed to block unauthorised access while permitting authorised communications. It is a device or set of devices that is configured to permit or deny connections between IT systems based upon a overall security policy that is defined by a set of rules. For example: “Computer A” may not communicate with “Computer B”
“Gartner”	Gartner, Inc., an information technology research company
“IDSB”	Intelligence Distribution System Balancer
“IPS”	Intrusion prevention systems are part of a computer system or network that block network attacks which primarily target software vulnerabilities of systems and applications, while allowing all other traffic to pass. IPS protection is performed by inspecting all network

traffic and searching for specific indicators or patterns that target known weaknesses that would result in a system or application being compromised in some way. For example: providing a hacker with full remote control over a PC

“Next Generation Firewall”
or “NGFW”

Next Generation Firewalls combine Firewall and IPS functions into a tightly integrated system providing communications control with systems and application vulnerability defence. The NGFW enhances the basic Firewall and IPS functions by virtue of an intrinsic intelligence and knowledge of communications methods and protocols. This is used to reveal granular detail, including specific application functions and user information, from every packet of information that traverses the network. The Firewall function is thus afforded finer grained control. For example User A may only perform read functions of database X on system Y. The IPS function is also enhanced through this increased packet visibility, and can uncover and defend against potential intrusions that an attacker has attempted to hide. For example: identifying a mail server attack that is cloaked by the web protocol HTTP. The NGFW intelligence is maintained contemporaneously via external “threat” information and performs all its functions without delaying network traffic

“LAN”

supplies networking capability to a group of computers in close proximity to each other for example computers in an office building

“VoIP”

Voice over Internet Protocol, a family of methodologies, communication protocols, and transmission technologies for delivery of voice communications and multimedia sessions over Internet Protocol (IP) networks, such as the Internet. Other terms frequently encountered and often used synonymously with VoIP are IP telephony, Internet telephony, voice over broadband (VoBB), broadband telephony, and broadband phone

“Web 2.0”

the term Web 2.0 is commonly associated with Internet based web applications. A Web 2.0 site allows users to interact and collaborate with each other in a social media dialogue as consumers of user-generated content in a virtual community. Examples of Web 2.0 sites include social networking sites, blogs, wikis and video sharing sites

DIRECTORS, SECRETARY AND ADVISERS

Current Directors	Jens Montanana (<i>Non-executive Chairman</i>) Andrew Miller (<i>Executive Director</i>) Bernard Snowe (<i>Executive Director</i>) Richard Last (<i>Non-executive Director</i>) all of 169 High Street Rickmansworth Hertfordshire WD3 1AY
Company Secretary	Duncan Swallow
Registered Office	169 High Street Rickmansworth Hertfordshire WD3 1AY
Telephone	01923 897333
Website on Admission	www.corero.com
Nominated Adviser & Broker	finnCap Limited 60 New Broad Street London EC2M 1JJ
Reporting Accountant	BDO LLP Prospect Place 85 Great North Road Hatfield AL9 5BS
Auditors to Corero	Grant Thornton UK LLP Grant Thornton House Melton House Euston Square London NW1 2EP
Auditors to Top Layer	BDO USA, LLP 100 High Street, Suite 900 Boston, MA 02110 US
Solicitors to the Company	Dorsey & Whitney (Europe) LLP 21 Wilson Street London EC2M 2TD
Solicitors to finnCap	Eversheds LLP 1 Wood St London EC2V 7WS
Registrars	Capita Registrars Limited Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0GA

PART I

LETTER FROM THE CHAIRMAN OF CORERO PLC

CORERO PLC

(Incorporated and registered in England and Wales, registered number 02662978)

Directors:

Jens Montanana *(Non-executive Chairman)*

Andrew Miller *(Executive Director)*

Bernard Snowe *(Executive Director)*

Richard Last *(Non-executive Director)*

169 High Street

Rickmansworth

Hertfordshire

WD3 1AY

7 February 2011

To Shareholders

Dear Shareholder,

Proposed Acquisition, Placing and Admission

1. INTRODUCTION

The Company announced today that it has conditionally agreed to acquire the entire issued share capital of Top Layer, such acquisition to be effected by way of a merger, under Delaware law, of Tomcat Sub (a wholly owned subsidiary of the Company) with and into Top Layer, details of which are set out below. The aggregate consideration for the Acquisition is \$15,288,160 (being approximately £9,495,752), to be satisfied as to \$6,304,602 by the issue, credited as fully paid, of the Completion Consideration Shares (such number of shares having been calculated using a share price of £0.45 and a US dollar-to-British pound sterling exchange rate of 1.55), \$5,000,000 by the issue of the Consideration Loan Notes and \$3,860,000 in cash (of which \$500,000 shall be paid into an escrow account comprising the Escrow Deposit). In addition, a deferred consideration of \$123,558, to be satisfied by the issue of the Deferred Consideration Shares, shall be payable within 30 days after the date that is 18 months after Completion subject to adjustment for set off against any warranty claims brought by the Company in accordance with the terms of the Merger Agreement. Further details of the consideration for the Acquisition and the Merger Agreement are set out in paragraph 5 below.

The Company has also announced today that it has conditionally raised up to £2.3 million (before expenses) by way of a placing of up to 6,571,429 new Ordinary Shares at a price of 35p per share. The Placing is not being underwritten and the proceeds of the Placing are not required by the Company to enable them to fund the cash consideration payable for the Acquisition. Application will be made for admission of the Enlarged Issued Share Capital to trading on AIM. Subject to the approval of Resolutions numbered 1, 2 and 4, it is expected that Admission will become effective and dealings in the Enlarged Issued Share Capital will commence on AIM on 2 March 2011.

In view of the size of the Acquisition in relation to the Company, the Acquisition constitutes a reverse takeover under the AIM Rules for Companies. As such, the Acquisition is subject to the approval of Shareholders, which is being sought at the General Meeting of the Company to be held at 11.00 a.m. on 1 March 2011, notice of which is set out at the end of this document. Should Shareholder approval be granted, the Company's existing trading facility on AIM will be cancelled and the Enlarged Issued Share Capital will be admitted to trading on AIM. Subject to Shareholder approval and to satisfaction of the other conditions relating to the Acquisition under the Merger Agreement, completion of the Acquisition is expected to take place on 2 March 2011, the expected date of Admission.

The purpose of this document, which is an admission document drawn up in accordance with the AIM Rules for Companies, is to set out the background to and reasons for the Acquisition, provide information about Top Layer and explain why the Board considers that the terms of the proposed Acquisition and the Placing

are in the best interests of the Company and its Shareholders and recommend that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting.

2. INFORMATION ON TOP LAYER

Top Layer is based in Hudson, Massachusetts, and focuses on developing and bringing to market network security infrastructure solutions such as Intrusion Prevention Systems (“IPS”) that help commercial and government organisations protect their critical on-line assets from the losses and risks associated with cyber threats. Top Layer has over 1,000 corporate and government customers across the financial services, healthcare, retail and e-commerce, government, education, critical infrastructure, service provider and other markets.

Top Layer has a 13 year history in delivering high performance network security solutions that protect critical IT infrastructures of medium to large enterprises and service providers against the losses and risks associated with network-borne cyber threats. It has a recognised pedigree for dependable performance, reliability and quality for both hardware and software security systems.

In April 2010, Top Layer successfully completed a technology evolution from a product line based on custom ASIC hardware, to a proprietary software operating system that leverages recent advances in off-the-shelf, multi-core central processing unit (“CPU”) technology. The release of these new 4th generation IPS appliances has boosted performance levels, significantly reduced manufacturing costs (by using industry standard hardware components), and has created a platform with the innate flexibility required to meet future market demands. In a recent report by Gartner, Top Layer is ranked as a “Visionary” in the IPS market.

Top Layer’s scalable IPS platform includes solutions with network throughputs up to 20 Gigabits per second, and offers a highly competitive price performance ratio and a rich set of IPS features including DoS protection. The Top Layer operating system is capable of fully exploiting 64-core processors and beyond. It illustrates a clear path to the performance needs of the future, and creates a versatile platform for the delivery of a Next Generation Firewall product line and a suite of security gateways.

In addition to its flagship intrusion prevention products, Top Layer markets and sells its Intelligence Distribution System Balancer (“IDSB”) family of products. The IDSB product is used by enterprises and government agencies to aggregate and distribute network traffic more efficiently to a variety of third-party network sensors like those used for Voice over Internet Protocol recording, data leakage protection and forensic analysis. In the year ended 31 December 2009, this business represented approximately 22 per cent. of Top Layer’s revenue and in the six months ended 30 June 2010 approximately 30 per cent. of Top Layer’s revenue.

History

Top Layer was founded in 1997 and focussed its business on application security and network attack mitigation. In 2002, the focus changed to intrusion detection and protection systems with the introduction of Top Layer’s 1st generation Attack Mitigator product line. From 2005 through 2007, Top Layer introduced two new IPS products including its IPS5500-E series product in 2007, a high performance IPS product using custom silicon. In 2010, Top Layer launched 8 new IPS models based on 64-core processor technology developed by Tiler Corporation, including the introduction of its 20 Gigabit throughput Ethernet IPS solution in December 2010.

Summary of financial information on Top Layer

The financial information set out in the table below has been extracted from the historical financial information on the Top Layer Group set out in Section A of Part III of this document (based on audited accounts for the years ended 31 December 2008 and 2009 which have been prepared in accordance with IFRS) and from the unaudited interim results of the Top Layer Group for the six months ended 30 June 2010 which are set out in Section C of Part III of this document also prepared in accordance with IFRS. Historical financial information for the year ended 31 December 2007 is set out in Section B of Part III of this document but not summarised in the below table as the historical financial information for that year was

prepared in accordance with US GAAP and not IFRS and is therefore not comparable with the financial information contained in the table below.

In order to make a proper assessment of the Top Layer Group's business, investors and Shareholders should not rely solely on the summary information set out below but should read the whole of this document including the accountants' report set out in Sections A and C of Part III of this document.

	<i>Year ended 31 December 2008 Audited (\$'000)</i>	<i>Year ended 31 December 2009 Audited (\$'000)</i>	<i>Six months ended 30 June 2010 Unaudited (\$'000)</i>
Revenue	11,779	11,693	5,269
<i>Comprising of:</i>			
<i>Products (hardware and software)</i>	5,907	4,989	2,035
<i>Services</i>	5,872	6,583	3,015
<i>Other</i>	–	121	219
Gross profit	8,697	8,703	4,267
Loss before finance costs	(5,750)	(2,113)	(368)
Finance costs (net of finance income)	(1,869)	(1,305)	(1,053)
Loss before taxation	(7,619)	(3,418)	(1,421)

The table below presents the summarised historical financial information in the above table at a constant US dollar-to-British pound sterling exchange rate of 1.61 in accordance with the section entitled "Foreign Currency Amounts" on page 5.

	<i>Year ended 31 December 2008 Audited (£'000)</i>	<i>Year ended 31 December 2009 Audited (£'000)</i>	<i>Six months ended 30 June 2010 Unaudited (£'000)</i>
Revenue	7,316	7,263	3,273
<i>Comprising of:</i>			
<i>Products (hardware and software)</i>	3,669	3,099	1,264
<i>Services</i>	3,647	4,089	1,873
<i>Other</i>	–	75	136
Gross profit	5,402	5,406	2,650
Loss before finance costs	(3,571)	(1,312)	(229)
Finance costs (net of finance income)	(1,161)	(811)	(654)
Loss before taxation	(4,732)	(2,123)	(883)

The Business

Top Layer's IPS solution is built around a family of purpose-built appliances, using off the shelf silicon and hardware and Top Layer's proprietary software (licensed to customers on a non-exclusive basis until terminated by Top Layer), that are deployed at strategic points in customers' IT networks. The appliances inspect network traffic flows to identify and block malicious software ("malware") and other cyber attacks using multiple threat detection engines and an extensive database of rules and signatures developed by Top Layer. In addition to the IPS appliance, the Top Layer solution includes TopResponse™, an automated threat update subscription service, IPS Controller, a centralised management software module and Network Security Analyzer, a security information and event management software module that provides real-time dashboard views and reporting capabilities. In addition, Top Layer offers customers professional services, comprising mainly IPS implementation and security optimisation services, training and maintained IPS security services.

Top Layer's product line uses an integrated firewall filtering and intrusion prevention-focused deep packet inspection to block undesired network access and malicious network content (including remote exploits of

system vulnerabilities in computer operating systems and applications, viruses, worms, Trojans and spyware). The same product also mitigates rate-based attacks such as DoS and DDoS attacks and application-level flood attacks. Rate-based attacks are cyber attacks which intentionally overload computers or networks with traffic for the purpose of preventing legitimate traffic from reaching its destination, resulting in lost revenue and brand damage for the attacked enterprise or organisation.

Top Layer is headquartered in Hudson, Massachusetts, US and has 51 employees, of which 21 are involved in the sales and marketing function, 13 in development of Top Layer's technology and the balance in management, support, product management, finance and administration. The manufacturing and assembly of Top Layer's IPS hardware appliance is outsourced to a contract manufacturer in the US.

Top Layer's revenue model has several streams including hardware sales, software licensing, support and IPS update service fees, installation and maintenance services. A typical new customer sale will pay a set price for the hardware, software license, maintenance, technical support and IPS threat update services for a period ranging anywhere from one to three years in addition to implementation services. Approximately half of Top Layer's business is sold through channel partners including specialist IT distributors and integrators including Immix Technology, Inc., InfoPeople Security Solutions, Inc., FishNet Security Inc., Accuvant, Inc., and Blue Cube Security Limited. In the nine months ended 30 September 2010, over 65 per cent. of new business orders of Top Layer were generated from customers in the US. Top Layer's customers include large multinational corporations and public sector companies including Air Liquide SA, Globix Limited, University of Miami and Camelot UK Lotteries Limited.

The Security Infrastructure Market

In 2009, the worldwide enterprise security infrastructure market was a \$17.8 billion market with revenues forecast to be approximately \$29.8 billion in 2014 (*source: Gartner*).

Security is a resilient area of IT spend and is often considered by organisations to be non-discretionary. There are a number of reasons for this:

- the rapid growth of the Internet has resulted in considerable growth of cyber crime, together with an increase in the threat of insider fraud and data theft. Security is a critical component of an organisation's IT infrastructure and the Directors believe it can be considered non-discretionary, because of data theft issues and compliance requirements.
- the security market is constantly changing and evolving. The Directors believe that there are several business drivers and IT trends which are forcing changes in security practices and related technology adoption:
 - the network perimeter, the boundary between private networks and the public domain, is rapidly dissolving as initiatives around external access to Internet connected corporate networks' cloud computing domains. Consumer and social networking and software-as-a-service, are making the notion of a secure network boundary (the cornerstone of past security efforts) irrelevant. In addition, organisations are increasingly making applications on their networks accessible to partners and customers.
 - the virtualisation of computing environments is disrupting traditional security models and causing a significant rethink of network security for many organisations.
 - the evolving Web is the new frontier for attacks – traditional Web protection practices such as URL filtering and antivirus protection at the gateway have failed to keep up with today's security threats. The exploitation of vulnerabilities on legitimate Web sites, phishing attacks, as well as Web 2.0 and social networking-based attacks are all forcing organisations to adopt real-time Web content analysis; and
 - as a direct result of increasing cybercrime, new legislation is creating an ever-changing compliance requirement for information security. Organisations in industry sectors such as healthcare, financial services and government are required to comply with regulations such as Health Insurance Portability and Accountability Act (HIPAA), Sarbanes Oxley Act (SOX) and those from the Payment Card Industry (PCI).

The IPS market is an important sub-sector of the overall network security market. The IPS equipment market was worth \$1.2 billion in 2009, and is forecast to grow to \$2.1 billion by 2014 (a compound annual growth rate of 11.9 per cent.), representing approximately 7.1 per cent. of the overall security market in 2014, compared to 6.8 per cent. in 2009 (*source: Gartner*).

The network IPS market subsumed the intrusion detection system (“IDS”) market several years ago. IPS contains all the detection features of IDS but has moved beyond simple attack signature detection to add vulnerability-based signatures and non-signature protocol analysis detection capabilities at wire speeds to enable automated blocking and attack handling.

Top Layer’s IPS solution protects enterprises across three primary threat dimensions (i) undesired access, wherein intruders gain access to valuable assets such as proprietary intellectual property or customer identity/credit information; (ii) malicious content, including viruses, spyware and other types of malware, which can cause troubles that range from mild annoyances to cost-prohibitive extended network downtime and loss of intellectual property; and (iii) rate-based attacks.

Competition

Top Layer’s competitors in the IPS market include Checkpoint Software Technologies Limited, Cisco Systems Inc., HP Tipping Point (a division of Hewlett-Packard Company), IBM Corporation, Juniper Networks Inc., McAfee Inc., Palo Alto Networks Inc. and Sourcefire Inc.

3. INFORMATION ON CORERO

Corero’s Business Systems division is a provider of management information software solutions to the Further Education, Academy, school and commercial markets. The Business Systems’ software solutions include Resource Financials, a financial software solution and Resource Education Management System (“EMS”), a management information system aimed at the sixth form and further education college sector.

Resource Financials is a flexible financial management system with a suite of highly integrated modules including core accounting ledgers, order processing including e-procurement, project costing with timesheets and expenses, fixed asset accounting and tracking, and document scanning and management. Complementing these core modules are a range of web based applications covering reporting, requisitioning, timesheet and expense entry and approval. Resource Financials has approximately 330 customers (being those who pay for annual support), including approximately 110 Sixth Form and Further Education College customers, approximately 150 Academies and Schools, and over 50 commercial customers including consulting engineers, market research and design companies.

Resource EMS manages the complete learner life-cycle, from initial enquiry through to completion within the further education market place in England. Combining both core and web portal technology, Resource EMS delivers key aspects of learner and employer administration including web and portal enrolments, applications and enquiries through to Individual Learner Plans, pastoral care and achievement. Resource EMS is a comprehensive solution with modules covering course provision, timetables, registers, work based learning and exams as well as satisfying the requirement for Department of Business, Innovation & Skills statutory returns. Resource EMS has approximately 40 Sixth Form and Further Education College Customers.

History

The Company was incorporated in November 1991 with the name Mondas plc and was admitted to trading on AIM on 9 October 2000. The Company changed its name to Corero plc on 27 February 2007.

The Company’s business, prior to the August 2010 Transaction comprised two divisions: Business Systems division and Financial Markets division.

The Business Systems division was formed from two acquisitions: the acquisition of DSR Holdings Limited, a company whose principal activity was the design, manufacture and supply of accounting and management information software products mainly for small to medium sized enterprises, in October 2000 and the acquisition of Eclipse Learner Systems Limited, a provider of learner management administration software, in October 2005.

The Financial Markets division was formed from the Company's legacy business, being the development and marketing of business process management and workflow software (branded as Radica) and the acquisition in January 2006 of Blue Curve Limited, a company whose principal activity was the development and marketing of software solutions used by financial institutions to improve a variety of financial information production and distribution processes. The Financial Markets division was disposed of on 6 August 2010 on the terms as detailed in the circular to Shareholders dated 14 July 2010 and comprised part of the August 2010 Transaction.

Summary of financial information on Corero

The financial information set out in the table below has been extracted from the Group's audited annual reports for the years ended 31 December 2007, 2008 and 2009 and the unaudited interim report of the Group for the six months ended 30 June 2010 (each of which is incorporated by reference in this document). In order to make a proper assessment of the Group's business, investors and Shareholders should not rely solely on the summary information set out below but should read the whole of the Group's audited annual reports and unaudited interim statements incorporated by reference in this document.

	<i>Year ended 31 December 2007 Audited (£'000)</i>	<i>Year ended 31 December 2008 Audited (£'000)</i>	<i>Year ended 31 December 2009 Audited (£'000)</i>	<i>Six months ended 30 June 2010 Unaudited (£'000)</i>
Revenue	5,244	5,249	4,922	2,214
Gross profit	4,941	4,886	4,720	2,099
Profit/(Loss) before finance costs ¹	(1,154)	(317)	137	184
Finance costs (net of finance income)	(337)	(341)	(317)	(163)
Profit/(Loss) before taxation	(1,491)	(658)	(180)	21

¹ includes profit/(loss) relating to the Financial Markets business as follows: (£653,000) during the year ended 31 December 2007, (£706,000) during the year ended 31 December 2008, £150,000 during the year ended 31 December 2009, and (£27,000) during the six months ended 30 June 2010.

Competition

The Company's principal competitors for its Resource Financials solution are Access UK Limited, Capita Group plc, COA Solutions Limited (part of Advanced Computer Software Group plc), IRIS Software Group Limited, PS Financials plc, Sage Group plc and Symmetry Limited. The Company's principal competitors for its Resource EMS solution are The Capita Group plc, Compass Computer Consultants Ltd, Tribal Group plc and Unit 4 NV.

4. BACKGROUND TO AND REASONS FOR THE ACQUISITION

Corero's strategy is to enhance its existing business, comprising the Business Systems division, and to embark on an acquisition strategy in the network security market in order to build a Security Systems division. This intention was detailed in the circular to Shareholders dated 14 July 2010 and the factors which attracted the Directors to the network security market are set out in paragraph 2 of Part I of this document.

In the context of the Corero Security Systems division, the Directors have examined a number of potential acquisition opportunities since the August 2010 Transaction. The Company's target acquisition profile is focused on technology-led companies with a software orientation in order to provide maximum flexibility for growth and development and the ability to exploit the latest advances in multi-core CPUs to deliver enhanced levels of security processing performance.

The Directors believe that Top Layer presents an exciting prospect for the Company as the first step in executing its acquisition strategy by providing a core platform on which to build a leading network security systems business. Top Layer has a strong proprietary technology offering with a multi-core processing platform to support high performance security applications and scalable architecture, which the Directors

believe can be readily developed to add functionality with which to broaden its network security offering, and thereby the potential to deliver strong revenue growth.

The Acquisition will provide Top Layer with a higher profile and will give the Enlarged Group greater access to capital to facilitate increased organic and acquisitive growth.

The Directors believe that Top Layer can develop its business more rapidly by access to greater resources and the ability to finance suitable acquisitions through the issue of shares on a public market.

5. PRINCIPAL TERMS OF THE ACQUISITION

The Company has conditionally agreed, pursuant to the terms of the Merger Agreement, to acquire the entire issued share capital of Top Layer and to satisfy the obligations of Top Layer to the Top Layer Management Team and employees arising from the Change of Control Agreements and Special Bonus Plan. The Acquisition is to be effected by way of a merger, under Delaware law, of Tomcat Sub with and into Top Layer.

The aggregate consideration for the Acquisition is \$15,288,160 (approximately £9,495,752), to be satisfied as to \$6,304,602 by the issue, credited as fully paid, of the Completion Consideration Shares (such number of shares having been calculated using a share price of £0.45 and a US dollar-to-British pound sterling exchange rate of 1.55), \$5,000,000 (approximately £3,105,590) by the issue of the Consideration Loan Notes and \$3,860,000 (approximately £2,397,516) in cash (of which \$500,000 (approximately £310,559) shall be paid into an escrow account comprising the Escrow Deposit). In addition, deferred consideration of \$123,558 (approximately £76,744), to be satisfied by the issue of the Deferred Consideration Shares (such number of shares having been calculated using a share price of £0.45 and a US dollar-to-British pound sterling exchange rate of 1.55), shall be payable within 30 days after the date that is 18 months after Completion, subject to adjustment for set off against any warranty claims brought by the Company in accordance with the terms of the Merger Agreement. The majority of the consideration for the Acquisition will be received by the Principal Stockholders except for the following:

- the amount of \$1,364,198 (approximately £847,328) payable to the Top Layer Management Team in consideration for the cancellation of the outstanding Management Preferred Shares (to be issued by Top Layer immediately prior to Completion as payment in full for obligations arising from the Change of Control Agreements), to be satisfied as to \$700,185 (approximately £434,898) by the issue of 1,003,850 Completion Consideration Shares (such number of shares having been calculated using a share price of £0.45 and a US dollar-to-British pound sterling exchange rate of 1.55), as to \$123,558 (approximately £76,744) by the issue of the Deferred Consideration Shares, subject to adjustment for set off against any warranty claims under the terms of the Merger Agreement (such number of shares having been calculated using a share price of £0.45 and a US dollar-to-British pound sterling exchange rate of 1.55) and as to \$448,049 (approximately £287,291) in cash (to fund the Top Layer Management Team's US income tax obligations which will arise from the issue of the shares); and
- the amount of \$279,000 (approximately £173,292) payable in cash to certain Top Layer employees under the terms of the Special Bonus Plan.

As at the date of this document, there are 31,963,434 Ordinary Shares in issue and the number of Completion Consideration Shares to be issued to the Principal Stockholders is 8,035,005, representing 19.6 per cent. of the issued share capital of the Company immediately following the Acquisition and before the issue of the Placing Shares and representing 16.9 per cent. of the Enlarged Issued Share Capital. Up to 1,180,995 Ordinary Shares (comprising Completion Consideration Shares and Deferred Consideration Shares) will be issued to the Top Layer Management Team pursuant to the Merger Agreement (assuming that no set off is made against the Deferred Consideration Shares) representing 2.9 per cent. of the issued share capital of the Company immediately following the Acquisition and before the issue of the Placing Shares. On Completion, the Top Layer Management Team will be issued 1,003,850 Completion Consideration Shares representing 2.4 per cent. of the issued share capital of the Company immediately following the Acquisition and before the issue of the Placing Shares and representing 2.1 per cent. of the Enlarged Issued Share Capital.

All of the cash consideration payable pursuant to the Merger Agreement will be settled from the Company's existing cash balances.

The principal terms of the Consideration Loan Notes are that there is an 8 per cent. per annum interest rate with interest payable bi-annually or added to the principal amount at the election of Top Layer. The Consideration Loan Notes are repayable three years following Completion but can be repaid prior to the repayment date without penalty at the sole election of Top Layer. In the event that the Consideration Loan Notes are repaid within (i) 180 days following the date of their issuance, the Consideration Loan Notes shall be repaid at a 10 per cent. discount to the amount of principal outstanding at the time of repayment, or (ii) 120 days following the date of its issuance, the Consideration Loan Notes shall be repaid at a 12 per cent. discount to the amount of principal outstanding at the time of repayment.

The Merger Agreement contains warranties typical of a transaction of this nature. Claims for losses arising from the Merger Agreement including claims for losses arising from the warranties and indemnities, are recoverable, depending on the nature of the claim, from:

- the Escrow Deposit (which will be released 18 months following the Acquisition) and set off against the number of Deferred Consideration Shares to be issued in the proportion 500 to 123; or
- bringing a claim against the Principal Stockholders; however the amount which can be claimed is capped at the total aggregate consideration paid to the Principal Stockholders under the Merger Agreement (which includes the right of set-off against the Consideration Loan Notes).

The Completion Consideration Shares to be issued to the Principal Stockholders and members of the Top Layer Management Team pursuant to the Merger Agreement will be subject to the term of the Lock-In Deeds, further details of which are set out in paragraph 10 of this Part I and paragraphs 10.1.3 and 10.1.4 of Part V of this document.

Further details of the Merger Agreement are set out in paragraph 10.1.1 of Part V of this document.

The Principal Stockholders and the Company entered into the Relationship Agreement on 7 February 2011 to regulate certain aspects of the continuing relationship between them. For the purposes of this paragraph and the immediately following paragraph which summarises the provisions of the Relationship Agreement, "Shareholders" means Crosshill Debt II, L.P. and Crosshill Georgetown Capital, L.P. on the one hand (together being a "Shareholder") and Loudwater Trust Limited on the other hand. For so long as:

- the Shareholders (or any of them) hold any of the Consideration Loan Notes or the Shareholders (or any of them) hold, in aggregate, more than 10 per cent. of the entire issued Ordinary Shares of the Company, the larger Shareholder shall be entitled to require the appointment of one director to the Board; and
- the Shareholders (or any of them) hold, in aggregate, more than 10 per cent. of the entire issued Ordinary Shares of the Company or the Shareholders (or any of them) hold Consideration Loan Notes with an aggregate principal value of not less than \$1 million, the smaller Shareholder shall have the right to appoint a representative as an observer to attend each and any meeting of the Board.

The agreement is conditional on the Acquisition becoming effective in accordance with the Merger Agreement and the Shareholders shall only be able to exercise their rights to appoint a director and/or observer after the expiry of three months following Admission. Further details of the Relationship Agreement are set out in paragraph 10.1.2 of Part V of this document.

6. DETAILS OF THE PLACING AND USE OF PROCEEDS

Under the terms of the Placing Agreement, finnCap has conditionally placed, as placing agent to the Company, up to 6,571,429 Placing Shares at the Placing Price. The Placing Shares will (assuming that the Placing is fully subscribed) represent approximately 13.8 per cent. of the Enlarged Issued Share Capital. The Placing Shares have been conditionally placed with existing institutional shareholders and other new investors, including certain Directors. Conditional on, *inter alia*, the passing of the Resolutions numbered 1, 2 and 4, the Placing as a whole will raise proceeds of up to £2.3 million, before expenses. The total expenses

in relation to the Placing and the Acquisition are set out in paragraph 18.1 of Part V of this document. The Placing Shares will be in registered form and capable of being held in certificated form or uncertificated form in CREST.

The Placing is conditional, *inter alia*, upon the passing of Resolutions numbered 1, 2 and 4, Completion of the Acquisition and Admission having occurred by no later than 2 March 2011 (or such time and date as finnCap may specify, being not later than 31 March 2011). The Placing Agreement contains provisions (including customary market related provisions) entitling finnCap to terminate the Placing Agreement at any time prior to Admission in certain circumstances. If this right is exercised, the Placing will lapse. The Placing is not being underwritten.

The Placing Price of 35p represents a discount of approximately 12.5 per cent. to the middle market price of an Ordinary Share at the close of business on 4 February 2011, being the latest practicable date prior to the date of this document.

The Placing Shares and the Completion Consideration Shares will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares and will have the right to receive all dividends and other distributions thereafter declared, made or paid in respect of the issued ordinary share capital of the Company.

The proceeds of the Placing will be used, *inter alia*, as working capital for the Enlarged Group and to provide the resources to allow the Enlarged Group to increase its market share in the network security and business systems markets through complementary acquisitions and organic growth.

Further details of the Placing Agreement are set out in paragraph 10.1.5 of Part V of this document.

7. STRATEGY OF THE ENLARGED GROUP

On completion of the Acquisition, the Enlarged Group will have businesses with a strong proposition in the international network security market and in the supply of software solutions to the UK education market.

The strategy for the Security Systems division will be to drive revenue growth through increased marketing and industry visibility of the division's approach and product capabilities and developing an international channel focused sales model which will enable the Enlarged Group to access new markets and customers. In terms of product development, the emphasis will be on leveraging Top Layer's IPS and DDoS protection product offerings and developing a broader network security portfolio, including a next generation firewall offering, both organically and through complementary acquisitions.

In August 2010, Andre Stewart and Stephen Turner joined the Company as Vice President of Sales and Vice President of Technology Solutions and Services respectively, both of whom have extensive international experience and expertise in the network security market.

Andre Stewart was most recently at Fortinet, Inc. ("Fortinet") as VP Worldwide Sales and initially as VP EMEA sales, and managing director of European operations. Prior to Fortinet, Mr. Stewart was a Regional Director with Netscreen Technologies, Inc.

Stephen Turner was most recently at Fortinet, initially shaping the high-end appliance strategy, and subsequently as VP Customer Services and Support worldwide. Prior to Fortinet, Mr. Turner was the founder and CEO of a wireless start-up company, Filfree Networks sarl, and has worked for a number of technology companies including Cisco Systems, Inc. and Digital Equipment Corporation.

The Company will also continue its acquisition strategy in the network security market to grow its Security Systems division by acquisitions as well as organically.

The strategy for the Business Systems division will be to continue to invest and grow the business focusing on the education sector where it has a strong market position, particularly in the Further Education College and Academy markets in England. Development will continue on Resource Financials and Resource EMS with additional modules to meet customer requirements. Resource Financials V7, the next generation financial software solution, is expected to be released in the first half of 2011.

8. DIRECTORATE CHANGE AND INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT AND EMPLOYEES

With effect from 4 February 2011, Jens Montanana (formerly a non-executive Director) was appointed Chairman of the Company. On the same date, Peter Waller stood down as Chairman of the Company and resigned as a non-executive director of the Company. Mr. Waller has served as a director of the Company since 24 January 2006. The Board expresses its gratitude to Mr. Waller for his services to the Company.

Jens Peter Montanana (*non-executive Chairman*), aged 50, is the founder and CEO of Datatec Limited, established in 1986. Between 1989 and 1993 Mr. Montanana served as managing director and vice-president of US Robotics (UK) Limited, a wholly owned subsidiary of US Robotics Inc., which was acquired by 3Com. In 1993, he co-founded US start up Xedia Corporation in Boston, an early pioneer of network switching and one of the market leaders in IP bandwidth management, which was subsequently sold to Lucent Corporation in 1999 for \$246 million. In 1994, Mr. Montanana became CEO of Datatec Limited. Datatec Limited listed on the Johannesburg Stock Exchange in 1994 and on AIM in 2006. Mr. Montanana has previously served on the boards and sub-committees of various public companies.

Andrew Douglas Miller (*executive director, Chief Operating Officer responsible for finance, operations and M&A*), aged 46, was with the Datatec Limited group in a number of roles between 2000 and 2009 including the Logicalis Group Limited (“Logicalis”) Operations Director and Corporate Finance and Strategy Director. Mr. Miller led the Logicalis acquisition strategy, acquiring and integrating 12 companies in the US, UK, Europe and South America. Prior to this, Mr. Miller gained considerable corporate finance experience in London with Standard Bank, West Deutsche Landesbank and Coopers & Lybrand. Mr. Miller trained and qualified as a chartered accountant and has a bachelor’s degree in commerce from the University of Natal, South Africa.

Bernard Patrick Snowe (*executive director of Business Systems division*), aged 52, as one of the founders of DSR UK Plc (“DSR”), was instrumental in helping to build the marketplace for Resource Financials and Resource EMS and was a key part of the management team retained following the acquisition of DSR by the Company in October 2000. Mr. Snowe has over twenty years experience in the Accounting and MIS marketplace, and is highly experienced within the education sector in the UK, establishing Resource as the market leading finance application to Colleges and Academies. Prior to DSR, Mr. Snowe was a consultant for the FPS Financial Services Group and Sales Manager for Hestair Dataline. He graduated in 1980 with BA (Hons) in Geography from Lancaster University.

Richard Last (*non-executive director*), aged 53, is a fellow of the institute of Chartered Accountants in England and Wales, has substantial experience in the IT software and services sectors and is chairman and non-executive director of The British Smaller Companies VCT 2 plc, which is listed on the main market of the London Stock Exchange, and Parseq plc, Patsystems plc and Arcontech Group PLC, all of which are AIM listed. He is also a non-executive director of AIM listed Lighthouse Group plc. In addition Mr. Last is a director and shareholder of a number of private companies.

Following Admission, the Board intends to appoint an additional independent non-executive director.

Subject to the Acquisition becoming effective in accordance with the Merger Agreement, the Principal Stockholders will have the right under the Relationship Agreement, summarised in paragraphs 5 of Part I and 10.1.2 of Part V of this document, to require the appointment of a director and/or observer to the Board.

Immediately following Completion, key senior employees of the Enlarged Group will include:

Peter Rendall – *Top Layer Chief Executive Officer*

Prior to joining Top Layer in 2003, Mr. Rendall served as the Chief Financial Officer of Elcom International, Inc., an international provider of technology solutions. Before that he was at Logica plc where he served as Vice President of Operations for its US telecommunications division. Mr. Rendall began his career with Price Waterhouse, where he spent nine years advising clients on transactions, including IPO’s and corporate consolidations.

Paul Bogonis – *Top Layer Chief Financial Officer*

Prior to joining Top Layer in 2007, Mr. Bogonis served as Vice-President of Finance at Elcom International, Inc., and prior to that he was the Chief Financial Officer and Treasurer at Summit Design, Inc. where he also served as a member of the board of directors. Before that Mr. Bogonis held a number of finance positions at Viewlogic Systems, Inc., Netegrity, Inc., Progress Software Corporation, and Wang Laboratories, Inc. Mr. Bogonis has a BS in accounting from Northeastern University and an MS from Boston University.

Mike Cooper – *Top Layer Vice President Engineering and Customer Services*

Prior to joining Top Layer in 2004, Mr. Cooper co-founded New England Project Services, a project management consultancy. Previously he served as vice president of service delivery with Tanning Technology Corporation, an IT services company, and for several years prior to that was an independent consultant helping organisations improve their technology delivery practices. Mr. Cooper also served in a number of roles with Logica, Inc., including vice president of quality assurance and technology, Energy and Utilities Division; and vice president of engineering and quality assurance manager.

Mike Paquette – *Top Layer Chief Strategy Officer*

Prior to joining Top Layer in 1998, Mr. Paquette held the position of Senior Engineering Manager at Digital Equipment Corporation in the Network Product Group where he was responsible for Digital's multi-technology switch product development. He has more than 25 years of computer networking and security experience with an extensive background in the design and development of networking and security products. Mr. Paquette has a BSEE from Boston University.

Barry Spinney – *Top Layer Chief Technology Officer*

Mr. Spinney left FORE Systems, Inc. ("FORE") to found Top Layer in 1997. At FORE, he managed the engineering team responsible for the development of the ATM (Asynchronous Transfer Mode, a switching technique for telecommunication networks) card for the ES-3810 LAN switch. Prior to FORE, Mr. Spinney held engineering positions at Digital Equipment Corporation where he was the inventor, architect, and an engineering manager for the GIGAswitch product. He also developed and managed the FDDI (Fibre Distributed Data Interface, a technology used for LANs based on fibre optics) chipset and VNSwitch (a product that bridges (interconnected) LANs of different media (copper and fibre, and using different LAN protocols) into a contiguous LAN or LANs). Mr. Spinney has over 25 years of computer networking and security experience and has a Bachelor's degree in Mathematics and Computer Science from the University of Waterloo and a Masters degree in Computer Science from the University of Toronto.

James Williams – *Top Layer Vice President Sales*

Prior to joining Top Layer in 2008, Mr. Williams was Vice President and General Manager of North America Sales and Marketing for 3Com Corporation. Prior to that Mr. Williams held a number of senior sales positions including Senior Vice President of Sales for Nuvo Network Management, a division of Trilogy Enterprises, Inc., and President of Sales and Marketing for Vanguard Managed Solutions.

9. CURRENT TRADING AND PROSPECTS FOR THE ENLARGED GROUP

Top Layer

The full audited financial statements for the three years ended 31 December 2009 and the unaudited interim results for the six months to 30 June 2010 are set out in Part III of this document.

For the six months ended 30 June 2010, Top Layer's revenues (in accordance with IFRS) were \$5.3 million, of which 56 per cent. is services revenue, with an operating loss of \$0.35 million. Top Layer's fourth generation IPS product which was released in April 2010 has significantly reduced cost of sales, resulting in an increase in gross margin for the six months to 30 June 2010 to 81 per cent. (twelve months to 31 December 2010 76 per cent.). Top Layer has a strong pipeline of opportunities for its recently released 10 Gigabit Ethernet IPS product including \$1.7 million (approximately £1.1 million) of orders received in 2010.

Corero

In accordance with Rule 28 of the AIM Rules for Companies, this document does not contain historical financial information on the Group which would otherwise be required by Section 20 of Annex I of the Prospectus Rules.

The Group's audited annual reports for the three years ended 31 December 2009 and the interim report of the Group for the six months ended 30 June 2010 are available on the Company's website (www.corero.com) and Shareholders or other recipients of this document may request a copy of the information incorporated by reference from the company secretary of Corero, Duncan Swallow, who can be contacted at 169 High Street, Rickmansworth, Hertfordshire, WD3 1AY, or by telephone on number +44(0)1923 897 333.

The Company provided an update to Shareholders of trading (subject to audit) for the financial year ended 31 December 2010 in its "Year end trading update" announcement which was made on 26 January 2011. This is also available on the Company's website.

Prospects for the Enlarged Group

The Directors believe the prospects for the Enlarged Group are strong and are cautiously optimistic for the outlook of the Enlarged Group's future performance.

10. LOCK-INS

Each of the Principal Stockholders has severally agreed pursuant to the terms of the Principal Stockholders Lock-In Deed that, for a period of 12 months from Admission, it will not dispose of any of the Completion Consideration Shares to which it is entitled pursuant to the Merger Agreement and, for a further 12 months, it will, at least two Business Days prior to a disposal of any such Completion Consideration Shares being made, notify finnCap in writing of the proposed disposal.

Each member of the Top Layer Management Team has severally agreed pursuant to the terms of the Management Lock-In Deed in respect of the Completion Consideration Shares to which he is entitled pursuant to the Merger Agreement, that he will not:

- dispose of any Completion Consideration Shares during the period ending on the first anniversary of Admission;
- dispose of more than 20 per cent. of Completion Consideration Shares during the period commencing on the date immediately following the expiry of the first anniversary of Admission and ending on the second anniversary thereafter; and
- dispose of more than 50 per cent. of Completion Consideration Shares during the period commencing on the date immediately following the expiry of the second anniversary of Admission and ending on the third anniversary thereafter,

and that he will, at least two Business Days prior to a disposal of Completion Consideration Shares (which are no longer the subject of a lock in) being made, notify finnCap in writing of the proposed disposal.

These restrictions will apply in respect of 9,038,855 Ordinary Shares representing 19.0 per cent. of the Enlarged Issued Share Capital. The Lock-In Deeds are conditional upon the Acquisition becoming effective in accordance with the Merger Agreement. Further details of the Lock-In Deeds are set out in paragraphs 10.1.3 and 10.1.4 of Part V of this document.

11. SHARE OPTIONS

The Company has an obligation under the Merger Agreement to issue 675,000 options over Ordinary Shares in the Company to the management and certain employees of Top Layer. These options will be granted as soon as possible following Completion of the Acquisition at the then prevailing share price of the Company. The options will vest as to one third on the first anniversary of the grant, one third on the second anniversary of the grant and one third on the third anniversary of the grant with a restriction that any Ordinary Shares acquired on the exercise of options may not be disposed of until after the second anniversary of the grant.

Further details of the Share Option Schemes are set out in paragraph 5 of Part V of this document.

12. DIVIDEND POLICY

The Company has not paid any dividends since its admission to AIM in October 2000. The Directors intend to devote the Company's cash reserves to financing the development of the Enlarged Group in the short to medium term and intend in the longer term to commence the payment of dividends only when the Directors consider it commercially prudent to do so, having regard to the availability of the Company's distributable profits.

13. TAXATION

The attention of Shareholders is drawn to the further information regarding taxation set out in paragraph 11 of Part VI of this document. These details are, however, intended only as a general guide to the current tax position under UK taxation law and, if Shareholders are in any doubt as to their tax position, they should seek independent advice.

14. CORPORATE GOVERNANCE

The Directors recognise the importance of sound corporate governance. The Company intends to continue, following Admission, so far as is practicable and appropriate for a public company of its size, to follow the QCA Corporate Governance Guidelines for AIM companies. The Company has adopted a code for share dealings by directors and employees which is appropriate for an AIM company and which complies with Rule 21 of the AIM Rules for Companies on "Restrictions on deals". The Company will continue to take proper steps to ensure compliance by the Directors and all applicable employees.

The Board meets regularly and is responsible for strategy, budget, performance, approval of major capital expenditure and the framework of internal controls. The Company has in place an audit committee and a remuneration committee with formally delegated rules and responsibilities. The remuneration committee meets as and when appropriate and no less than twice each year and the audit committee meets no less than twice each year.

The Audit Committee comprises Jens Montanana and Richard Last who chairs the committee. The Audit Committee reviews the interim and full year financial statements prior to their publication and receives and reviews reports from the Enlarged Group's external auditors and determines the application of the financial reporting and internal control principles.

The Remuneration Committee comprises Richard Last and Jens Montanana who chairs the committee. The Remuneration Committee is responsible for determining the remuneration of the executive directors and establishing the criteria for the grant and exercise of share options. No director is permitted to participate in discussions or a decision concerning his own remuneration.

In view of size of the Board, the responsibility for proposing and considering candidates for appointment to the Board will continue to be retained by the Board.

The Board comprises four Directors, two of whom are non-executive Directors. On Admission, the Company will have one independent non-executive director, Richard Last. Following the Admission, the Board intends to appoint an additional independent non-executive director.

15. GENERAL MEETING

At the end of this document you will find a notice convening the General Meeting, which is to be held at the offices of finnCap, 60 New Broad Street, London, EC2M 1JJ at 11.00 a.m. on 1 March 2011, at which the following Resolutions will be proposed:

- (a) to approve the Acquisition (*ordinary resolution*);
- (b) to authorise the Directors to allot the Completion Consideration Shares, Deferred Consideration Shares and Placing Shares (*ordinary resolution*);

- (c) to authorise the Directors to generally allot up to 15,857,905 Ordinary Shares representing approximately one third of the Enlarged Issued Share Capital (*ordinary resolution*). This authority will replace the existing general authority;
- (d) to disapply the statutory pre-emption rights in connection with the allotment of the Completion Consideration Shares, Deferred Consideration Shares and Placing Shares pursuant to the authority in (b) above (*special resolution*); and
- (e) to disapply the statutory pre-emption rights in connection with the allotment of up to 7,136,058 Ordinary Shares (pursuant to the authority in (c) above), representing approximately 15 per cent. of the Enlarged Issued Share Capital (*special resolution*). This authority will replace the existing general authority.

16. ADMISSION AND SETTLEMENT

Application will be made to the London Stock Exchange for the Enlarged Issued Share Capital to be admitted to trading on AIM. Admission is expected to take place at 8.00 a.m. on 2 March 2011.

17. RISK FACTORS

Your attention is drawn to the Risk Factors set out in Part II and to the section entitled “Forward Looking Statements” on page 2 of this document. Prospective investors should, in addition to all other information set out in this document, carefully consider the risks described in those sections before making a decision of whether to invest in the Company.

18. ADDITIONAL INFORMATION

You should read the whole of this document and not just rely on the information contained in this letter. Your attention is drawn to the information set out in Parts II to V of this document and in particular to the Risk Factors relating to the Enlarged Group set out in Part II.

19. ACTION TO BE TAKEN

You will find enclosed with this document a Form of Proxy for use in connection with the General Meeting. Whether or not you intend to be present at the General Meeting, you are asked to complete the Form of Proxy in accordance with the instructions printed on it so as to be received by the Company’s registrars, Capita, as soon as possible but in any event not later than 11.00 a.m. on 25 February 2011. Completion of the Form of Proxy will not preclude a Shareholder from attending and voting in person at the General Meeting should they so wish.

20. RECOMMENDATION

The Directors consider the Acquisition and the Placing to be in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors unanimously recommend that you vote in favour of the Resolutions as they intend to do in respect of their own beneficial holdings of 11,008,706 Ordinary Shares, representing approximately 34.4 per cent. of the Existing Ordinary Shares.

Yours sincerely

Jens Montanana
Non-executive Chairman

PART II

RISK FACTORS

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

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

There are significant risks associated with the Group and, after Completion, the Enlarged Group. Prior to making an investment decision in respect of the Ordinary Shares or prior to making any decision to vote in favour of the Resolutions, prospective investors and Shareholders (as appropriate) should consider carefully all of the information within this document, including the following risk factors. The Board believes the following risks to be the most significant for potential investors. However, the risks listed do not necessarily comprise all those associated with an investment in the Company. In particular, the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory and/or tax requirements. The risks listed are not set out in any particular order of priority. Additionally, there may be risks not mentioned in this document of which the Board is not aware or believes to be immaterial but which may, in the future, adversely affect the Enlarged Group's business and the market price of the Ordinary Shares.

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

Before making a final investment decision, prospective investors should consider carefully whether an investment in the Company is suitable for them and, if they are in any doubt should consult with an independent financial adviser authorised under FSMA which specialises in advising on the acquisition of shares and other securities.

1. Investment in AIM securities

Although the Company is applying for the admission of its Enlarged Issued Share Capital to trading on AIM, there can be no assurance that an active trading market for the Ordinary Shares will develop, or if developed, that it will be maintained. An investment in shares traded on AIM may be less liquid and is perceived to involve a higher degree of risk than an investment in a company whose shares are listed on the Official List of the UK Listing Authority. Prospective investors should be aware that the value of the Ordinary Shares may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Enlarged Group. Investors may therefore realise less than, or lose all of, their investment.

2. AIM Rules for Companies

The Rules of AIM are less onerous than those of the Official List. Neither the FSA nor the London Stock Exchange has itself examined or approved the content of this document. Shareholders and prospective

investors (as appropriate) should be aware of the risks of investing in AIM quoted shares and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

3. Volatility of share price

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

4. Acquisition may not proceed

There can be no assurances that the conditions to the Merger Agreement will be satisfied and that the Acquisition will be completed. Completion is conditional upon, *inter alia*, the approval by the Shareholders of Resolutions 1, 2 and 4 to be proposed at the General Meeting. Resolutions 1, 2 and 4 are inter conditional and, in the event that Shareholders do not vote in favour of each of Resolutions 1, 2 and 4, the Acquisition (and hence the Placing) will not be completed.

5. Cost Base

The Enlarged Group will have a high fixed cost base and, in the event of an unanticipated reduction in customer demand, the Enlarged Group may not be able to reduce costs very quickly in the short term. This could have an adverse effect on the Enlarged Group's operating results and cash flow.

6. Exposure to Economic Cycle

Market conditions may affect the value of the Company's share price regardless of operating performance. The Enlarged Group could be affected by unforeseen events outside its control including economic and political events and trends, inflation and deflation, terrorist attacks or currency exchange fluctuation. The combined effect of these factors is difficult to predict and an investment in the Company could be affected adversely by changes in economic, political, administrative, taxation or other regulatory factors in any jurisdiction in which the Enlarged Group may operate. A deterioration in the economic climate could result in a delay or cancellation of clients' technology investments projects and the, recently announced large scale spending cuts by the UK government could adversely affect the Enlarged Group's Business Systems division as a supplier of software solutions to the Further Education and Academy markets.

7. Market Competition

The Enlarged Group will operate in a competitive market with its main competitors in both the network security and management information software markets being much larger companies with significant financial resources and as a result of this the Enlarged Group may face competitive pricing pressure. Such pricing pressure and new entrants to either or both markets could result in an adverse impact on the Enlarged Group's financial performance. Further, if the market for the Enlarged Group's products does not develop as it expects or if it fails to respond to market and competitive developments, the Enlarged Group's business and prospects could be materially adversely affected.

The network security market, in particular, is becoming increasingly competitive and the Enlarged Group may face significant competition, including from competitors who have greater capital resources than the Enlarged Group. There is no assurance that the Enlarged Group will be able to compete successfully in such a market place. The Directors are aware of this threat and intend to invest in the enhancement of both the Enlarged Group's products and services and by making strategic acquisitions.

8. Retention of key personnel

The Enlarged Group's future success is largely dependent on the personal efforts, expertise and abilities of its senior management and other key personnel. Whilst it has entered into contractual arrangements with the aim of securing the services of each of the executive Directors and senior management, retention of these employees cannot be guaranteed. The inability to retain management and key personnel could have a material adverse effect on the Enlarged Group's results of operations and financial condition.

9. Ability to attract employees

The Enlarged Group depends on qualified and experienced employees to develop and support its core software solutions and to secure new business. The ability of the Enlarged Group to attract new employees and senior executives with the required expertise and skills cannot be guaranteed. The Enlarged Group may experience difficulties in hiring appropriate employees and the failure to do so could have a material adverse effect on the Enlarged Group's ability to maintain and grow its business.

10. Technological change and product development

The markets the Enlarged Group operates in are fast changing, driven by changing customer requirements and technology trends. As such the Enlarged Group's solutions will require on-going development and enhancement to meet the needs of customers in its target markets. The Enlarged Group's ability to anticipate changes in technology and customer requirements and to develop successfully and introduce new and enhanced solutions on a timely basis will be significant factors in the Enlarged Group's ability to grow and to remain competitive. The ability of the Enlarged Group to invest in such development is dependent on new business generation and future cash flows. There can be no assurance that the Enlarged Group will have sufficient resources to make such investments, that these investments will bring the full advantages or any advantage as planned or that it will not encounter technical or other difficulties that could delay the introduction of new technologies or enhancements in the future. The Enlarged Group's failure, for technological or other reasons, to develop in a timely manner, and market, products or services incorporating new technologies could have a material adverse effect on its revenues, results of operations and/or prospects.

11. Technology Partners

Top Layer's 4th generation IPS solution utilises a proprietary multi-core processing chip produced by Tiler Corporation. Should the supply of these chips by Tiler Corporation be interrupted or if this relationship was lost, this could result in a material adverse impact on the Enlarged Group's financial performance. The Enlarged Group intends to continue to seek to maintain close relationships with Tiler Corporation which the Directors believe would reduce the risk of loss of this relationship.

12. Achievement of strategic aims

The value of an investment in the Enlarged Group is dependant upon the Enlarged Group achieving its strategic aims. The Enlarged Group's strategy for the Business Systems division is to continue to invest and grow the business, focusing on product development in the education sector where it has a strong market position. The Enlarged Group's strategy for the Security Systems division is, *inter alia*, to develop an international channel focused sales model which will enable the Enlarged Group to access new markets and customers. Whilst the Directors are optimistic about the prospects for the Enlarged Group, there is no certainty that it will be capable of achieving its strategy or the anticipated revenues or growth or be profitable. The Enlarged Group's future operating results will be highly dependant upon how well it manages its planned expansion strategy.

13. Acquisitions

A part of the Enlarged Group's growth strategy is to build and grow its Security Systems division by making acquisitions in circumstances where the Board believes that those acquisitions would support the Enlarged Group's business strategy. The Acquisition of Top Layer is the first such acquisition. However, there is no guarantee that the Enlarged Group will successfully be able to identify, attract and complete suitable

acquisitions. Whether the Enlarged Group can make further acquisitions will also depend on the Enlarged Group's ability to finance such acquisitions and its ability to obtain any necessary approvals.

14. Integration

The success of the Enlarged Group will be partly dependent upon the ability to integrate successfully the Acquisition and future acquisitions. If the integration of the Acquisition and/or future acquisitions does not proceed as successfully as the Board expects, it could have a detrimental impact on the future financial position of the Enlarged Group. The Directors believe that these potential risks are mitigated by a Board and senior management who have relevant experience of integrating acquisitions.

15. Third party intellectual property rights

The Enlarged Group distributes its products under software licence agreements that grant clients a personal and non-transferable licence to use the Enlarged Group's products and contain terms and conditions prohibiting the unauthorised reproduction or transfer of its products. Although the Enlarged Group intends to continue to protect its rights vigorously, there can be no assurance that these measures will be successful. If the Enlarged Group fails to protect its rights and others are able to improperly use its products without licensing them from the Enlarged Group, this failure may have a material adverse effect on its revenues, results of operations and prospects.

Although the Directors believe that the Enlarged Group's intellectual property rights do not infringe the intellectual property rights of others, third parties may assert claims that the Enlarged Group has violated a patent or infringed a particular copyright, trade mark or other proprietary right or confidential information belonging to them. Any such intellectual property claims, with or without merit, could be time consuming, expensive to litigate or settle and could divert management resources and information.

16. Future financing

Whilst the Directors have no current plans for raising additional capital immediately after the Placing and are of the opinion that the working capital available to the Enlarged Group will be sufficient for its present requirements, it is possible that the Company will need to raise extra capital in the future to develop the Enlarged Group's business or to take advantage of acquisition opportunities. No assurance can be given that any such additional financing will be available or that, if available, it will be available on terms favourable to the Company or to the Shareholders. Further equity financing may be dilutive to the Shareholders or result in an issuance of securities whose rights, preferences and privileges are senior to the holders of Ordinary Shares. The Directors may seek debt finance to fund all or part of any future acquisitions. There can be no assurance that the Company will be able to raise those debt funds, whether on acceptable terms or at all. Debt financing may require the Enlarged Group to enter into covenants restricting its future operational and financial activities.

17. Taxation

The attention of potential investors is drawn to paragraph 11 of Part V of this document headed "Taxation". Any change in the Enlarged Group's tax status or in taxation legislation or its interpretation could affect the value of the investments held by the Enlarged Group. Representations in this document concerning the taxation of the Enlarged Group and its investors are based upon current tax law and practise which is subject to change.

18. Foreign currency exchange rate

A significant proportion of the Enlarged Group's revenues will be derived outside the UK and the Enlarged Group's operations and profitability may be adversely affected by movements in foreign currency exchange rates, particularly by movements in the US dollar relative to the British pound sterling, through both transaction and conversion risks. The Enlarged Group has not entered into hedging transactions in respect of this risk but may do so in the future.

19. Influence of significant shareholder

Jens Montanana, the Non-executive Chairman, owns approximately 32.5 per cent. of the Existing Ordinary Shares as at the date of this document and will own approximately 27.0 per cent. of the Enlarged Issued Share Capital immediately following Admission (assuming that the Placing is fully subscribed). As a result, Mr. Montanana will be able to exercise significant control over all matters requiring approval by Shareholders.

20. Substantial sales of Ordinary Shares by major Shareholders could cause the price of the Ordinary Shares to decline

There can be no assurance that the Principal Stockholders and Top Layer Management Team, following expiry of the Principal Stockholders Lock-In Deed (details of which are set out in paragraph 10.1.3 of Part V of this document) and Management Lock-In Deed (details of which are set out in paragraph 10.1.4 of Part V of this document), will not elect to sell their Ordinary Shares. The market price of the Ordinary Shares could decline as a result of any such sales of Ordinary Shares or as a result of the perception that these sales may occur. If these or any other sales were to occur, the Company may in the future have difficulty in offering or selling Ordinary Shares at a time or at a price it deems appropriate.

21. Loss of IT systems

The Enlarged Group will be dependent on IT systems for the delivery of its business which will be vulnerable to damage or interruption from flood, fire, power loss, telecommunications failure and similar events. Failure of these systems could cause financial loss to the Enlarged Group as well as damage to its brand and reputation.

PART III

HISTORICAL FINANCIAL INFORMATION ON TOP LAYER

A – ACCOUNTANT’S REPORT ON TOP LAYER FOR THE YEARS ENDED 31 DECEMBER 2008 AND 31 DECEMBER 2009

B – FINANCIAL INFORMATION ON TOP LAYER FOR THE YEARS ENDED 31 DECEMBER 2008 AND 31 DECEMBER 2009

C – ACCOUNTANT’S REPORT ON TOP LAYER FOR THE YEAR ENDED 31 DECEMBER 2007

D – FINANCIAL INFORMATION ON TOP LAYER FOR THE YEAR ENDED 31 DECEMBER 2007

E – UNAUDITED INTERIM FINANCIAL INFORMATION ON TOP LAYER FOR THE SIX MONTHS ENDED 30 JUNE 2010

SECTION A

ACCOUNTANT'S REPORT ON TOP LAYER FOR THE YEARS ENDED 31 DECEMBER 2008 AND 31 DECEMBER 2009



BDO LLP
Prospect Place
85 Great North Road
Hatfield
Hertfordshire
AL9 5BS

The Directors
Corero plc
169 High Street
Rickmansworth
Hertfordshire
WD3 1AY

7 February 2011

finnCap Ltd
60 New Broad Street
London
EC2M 1JJ

Dear Sirs

Corero plc (the “Company”) and its subsidiary undertakings (together, the “Group”)

Top Layer Networks Inc.

Introduction

We report on the financial information set out in Section B of Part III. This financial information has been prepared for inclusion in the admission document dated 7 February 2011 of Corero plc (the “Admission Document”) on the basis of the accounting policies set out in note 2 to the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The directors of the Company 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 by the European Union (“IFRSs”).

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.

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

Basis of opinion

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

amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

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

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of Top Layer Networks Inc. as at the dates stated and of its consolidated losses cash flows and changes in equity for the years then ended in accordance with the basis of preparation set out in note 1 to the financial information and has been prepared in accordance with IFRSs as described in note 1 to the financial information.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies 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 for Companies.

Yours faithfully

BDO LLP
Chartered Accountants

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

SECTION B

FINANCIAL INFORMATION ON TOP LAYER FOR THE YEARS ENDED 31 DECEMBER 2008 AND 31 DECEMBER 2009

Consolidated statement of comprehensive income for the years ended 31 December 2008 and 31 December 2009

	<i>Notes</i>	<i>2008</i> <i>US\$'000</i>	<i>2009</i> <i>US\$'000</i>
Revenue	2	11,779	11,693
Cost of sales		3,082	2,991
Gross profit		8,697	8,702
Operating expenses		14,447	10,816
Loss from operations		(5,750)	(2,114)
Finance income	8	–	5
Finance expenses	8	(1,869)	(1,310)
Loss before taxation		(7,619)	(3,419)
Income tax expense	9	494	–
Loss for the year		(7,125)	(3,419)
Other comprehensive income/(loss)			
Exchange losses arising on translation of foreign operations		(126)	(161)
Total comprehensive loss for the year attributable to the owners of Top Layer		(7,251)	(3,580)
Loss per share attributable to the common equity holders of Top Layer during the year			
Basic and diluted (US\$ per share)	<i>11</i>	47.36	13.80

Consolidated statement of financial position at 31 December 2008 and 31 December 2009

	<i>Notes</i>	<i>2008</i> <i>US\$'000</i>	<i>2009</i> <i>US\$'000</i>
Assets			
Non-current assets			
Intangible assets	<i>13</i>	14	4
Property, plant and equipment	<i>14</i>	59	191
Other receivables	<i>16</i>	270	125
		<u>343</u>	<u>320</u>
Current assets			
Inventory	<i>15</i>	448	324
Trade and other receivables	<i>16</i>	2,519	3,076
Cash and cash equivalents	<i>28</i>	552	614
Total current assets		<u>3,519</u>	<u>4,014</u>
Total assets		<u>3,862</u>	<u>4,334</u>
Liabilities			
Non-current liabilities			
Deferred income		1,676	3,614
Loans and borrowings	<i>18</i>	1,606	1,730
Share warrants	<i>19</i>	–	288
Total non-current liabilities		<u>3,282</u>	<u>5,632</u>
Current liabilities			
Trade and other payables	<i>17</i>	4,583	6,583
Deferred income		3,058	2,615
Loans and borrowings	<i>18</i>	7,738	7,840
Total current liabilities		<u>15,379</u>	<u>17,038</u>
Total liabilities		<u>18,661</u>	<u>22,670</u>
NET LIABILITIES		<u>(14,799)</u>	<u>(18,336)</u>
Issued capital and reserves attributable to owners of the parent			
Share capital	<i>20</i>	3	2
Additional paid in capital	<i>21</i>	132,460	132,505
Treasury reserve	<i>21</i>	–	–
Foreign exchange reserve	<i>21</i>	(428)	(590)
Retained loss	<i>21</i>	(146,834)	(150,253)
TOTAL EQUITY		<u>(14,799)</u>	<u>(18,336)</u>

Consolidated statement of cash flows for the years ended 31 December 2008 and 31 December 2009

	<i>Notes</i>	<i>2008</i> <i>US\$'000</i>	<i>2009</i> <i>US\$'000</i>
Cash flows from operating activities			
Loss for the year		(7,619)	(3,419)
Adjustments for:			
Depreciation of non-current assets	<i>14</i>	54	43
Amortisation of non-current assets	<i>13</i>	16	10
Share based payments	<i>25</i>	21	44
Finance income	<i>8</i>	–	(5)
Finance expense	<i>8</i>	1,869	1,310
Loss on sale of property, plant and equipment		73	21
		<u>(5,586)</u>	<u>(1,996)</u>
Decrease in inventory		1,376	125
Decrease/(increase) in trade and other receivables		1,959	(413)
(Decrease)/increase in trade and other payables		(872)	1,173
Increase in deferred revenue		1,035	1,495
		<u>(2,088)</u>	<u>384</u>
Cash (outflow)/inflow generated from operations		(2,088)	384
Income tax paid		–	–
		<u>(2,088)</u>	<u>384</u>
Investing activities			
Purchases of property, plant and equipment		–	(199)
Interest received		–	5
		<u>–</u>	<u>5</u>
Net cash used in investing activities		–	(194)
Financing activities			
Interest paid		(58)	(185)
Issue of redeemable convertible preference shares, net of issue costs	<i>20</i>	1,542	–
Proceeds from borrowings		2,360	216
Repayment of borrowings		(1,542)	–
		<u>2,302</u>	<u>31</u>
Net cash generated from financing activities		2,302	31
Net increase in cash and cash equivalents		214	221
Cash and cash equivalents at beginning of year		520	552
Exchange loss on cash and cash equivalents		(182)	(159)
		<u>552</u>	<u>614</u>
Cash and cash equivalents at end of year	<i>28</i>	552	614

Consolidated statement of changes in equity for the years ended 31 December 2008 and 31 December 2009

	<i>Share capital</i> US\$'000	<i>Preference Share capital</i> US\$'000	<i>Additional paid in capital</i> US\$'000	<i>Treasury reserve</i> US\$'000	<i>Foreign Exchange reserve</i> US\$'000	<i>Retained loss</i> US\$'000	<i>Total attributable to equity holders of the parent</i> US\$'000
Balance at 1 January 2008 under US GAAP	17	219	45,886	(423)	(302)	(139,944)	(94,547)
Adjustment to reclassify preference shares as liabilities	–	(219)	–	–	–	–	(219)
Adjustment to opening reserves in respect of change in revenue recognition policy (US GAAP to IFRS)	–	–	–	–	–	235	235
Balance at 1 January 2008 under IFRS	17	–	45,886	(423)	(302)	(139,709)	(94,531)
Conversion of common and preference shares	(16)	–	75,083	423	–	–	75,490
Conversion of Junior Convertible Notes	2	–	11,470	–	–	–	11,472
Share based payment	–	–	21	–	–	–	21
Total comprehensive loss	–	–	–	–	(126)	(7, 125)	(7,251)
Balance at 31 December 2008	3	–	132,460	–	(428)	(146,834)	(14,799)
Share based payment	–	–	44	–	–	–	44
Surrender of common shares	(1)	–	1	–	–	–	–
Total comprehensive loss	–	–	–	–	(162)	(3,419)	(3,581)
Balance at 31 December 2009	2	–	132,505	–	(590)	(150,253)	(18,336)

Notes to the consolidated financial information

1. General information, statement of compliance with IFRS and basis of preparation

Basis of preparation

The consolidated financial information includes the financial statements of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

The consolidated financial information in relation to Top Layer consists of the following companies:

<i>Company</i>	<i>Summary description</i>
Top Layer Networks Inc (US)	Trading company and group parent
Top Layer Networks Japan KK (Japan)	Trading company (ceased control of company in June 2009)
Top Layer Networks International Inc (US)	Dormant
Top Layer Networks BV (Netherlands)	Dormant
Top Layer Networks Limited (UK)	Trading company

The financial information has been prepared in accordance with the requirements of the AIM rules and in accordance with this basis of preparation. The basis of preparation describes how the financial information has been prepared on a basis consistent with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) applicable to accounting periods beginning on 1 January 2010.

The preparation of the financial information in accordance with IFRS has resulted in different accounting policies being adopted compared to those used historically. The accounting policies set out below have been applied consistently to all periods presented in this Financial Information.

Going concern

Top Layer's consolidated financial information have been prepared assuming Top Layer will continue as a going concern, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. Top Layer has incurred losses and negative cash flows from operations since inception, has limited working capital and has an accumulated deficit of US\$151 million at 31 December 2009. To date, Top Layer has been funded primarily by issuing equity securities, entering into debt agreements and from sales transactions with customers. Following the Acquisition, Top Layer will be dependent on support from its parent company, Corero.

2. Accounting policies

New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which have not been applied in this financial information, are not expected to have a material effect on Top Layer's future results and financial position:

IFRS 3 (Revised) 'Business Combinations' effective for periods beginning on or after 1 July 2009;

IAS 27 (Amendment) 'Consolidated and Separate Financial Statements' effective for periods beginning on or after 1 July 2009;

Improvements to IFRSs (2009) effective for periods beginning on or after 1 January 2010;

IFRS 2 (Amendment) 'Share-based Payment: Group Cash-settled Share-based Payment Transactions' effective for periods beginning on or after 1 January 2010;

IFRS 9 'Financial Instruments' effective for periods beginning on or after 1 January 2013;

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' effective for periods beginning on or after 1 July 2010; and

IAS 24 (Revised) 'Related Party Disclosures' effective for periods beginning on or after 1 January 2011.

There are a number of standards, interpretations and amendments to published accounts not listed above which the Directors consider not to be relevant to Top Layer.

Revenue Recognition

Top Layer revenue is derived primarily from two sources: (i) product sales to resellers and end users, and (ii) service revenue, which is derived from providing maintenance and support services.

Service revenue is recognised over the term the services are provided. Software is essential to the functionality of the product. Further, Top Layer provides software upgrades, threat updates and enhancements relating to the equipment through maintenance and support agreements; and also offers professional services in the form of training. Top Layer recognises revenue when all of the following conditions are satisfied:

- (a) the significant risks and rewards of ownership of the software or service have been transferred to the customer;
- (b) the amount of revenue can be measured reliably;
- (c) it is probable that the economic benefits associated with the transaction will flow to Top Layer; and
- (d) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When a sales arrangement contains multiple elements, such as hardware and software products, licenses and/or services, Top Layer allocates revenue to each element based on a selling price hierarchy. In accordance with IAS 8, Top Layer refers to US GAAP for detailed guidance.

The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. As a result of the adoption of this policy compared with US GAAP, Top Layer evaluated the impact of applying the new revenue recognition guidance on 2007 transactions and determined that approximately US\$235,000 of additional revenues would have been earned and recorded during 2007. As a result of this, Top Layer made an adjustment to reflect this change in the opening accumulated deficit at 1 January 2008 and has also adjusted the opening deferred revenue balance.

Top Layer evaluates each deliverable in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value.

Top Layer establishes VSOE of selling price using the price charged for a deliverable when sold separately. TPE of selling price is established by evaluating similar and interchangeable competitor products or services in standalone sales to similarly situated customers. The best estimate of selling price is established considering both internal and external factors such as pricing practices, customer pricing strategies, margin objectives, market conditions, competitor pricing strategies, and industry technology lifecycles.

Services not bundled with product transactions can be billed on a time and materials basis and revenue is recognised as earned.

Shipping charges billed to customers are included in product revenues and related shipping costs are included in product costs.

Research and Development and Software Development Costs

Costs incurred in the research and development of the Group's products are expensed as incurred, except for certain software development costs. Costs associated with the development of computer software included in Top Layer's products are expensed as incurred prior to the establishment of technological feasibility in accordance with IAS 38. Costs incurred subsequent to technological feasibility and prior to the general release of the products are capitalized. No software development costs were capitalized during the years ended 31 December 2008 and 31 December 2009 since costs incurred subsequent to the establishment of technological feasibility were not material.

Foreign Currency Translation

Top Layer's functional currency is the US Dollar and it does not make sales in any other currency.

The functional currencies of Top Layer's foreign subsidiaries are the local currencies. Monetary assets and liabilities are translated into US Dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Expense items are translated at average exchange rates for the period. On consolidation foreign currency translation adjustments are included in accumulated other comprehensive income as a separate component of shareholders' equity. Foreign currency transaction gains or losses are included in other income (expense) and were not significant for the years ended 31 December 2008 and 31 December 2009.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as key management personnel.

Due to the integrated nature of Top Layer's business operations, Top Layer's primary segment (sale of hardware, software and associated maintenance and support) encompasses the entire scope of Top Layer's operations. Accordingly, no further segmental analysis is required.

Financial assets

No assets are classified as fair value through profit or loss, available for sale or held to maturity. Accordingly, all its financial assets have been classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value and are subsequently carried at amortised cost unless the effect of discounting is immaterial.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that Top Layer will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, Top Layer elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, if material, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the consolidated statement of comprehensive income (operating profit).

Top Layer's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Financial liabilities

Top Layer does not have any derivative financial liabilities that would be classified as financial liabilities at fair value through profit or loss. Accordingly, all financial liabilities are classified as other financial liabilities at amortised cost and include:

- Bank borrowings, loan notes and Top Layer’s redeemable convertible preference shares are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.
- Share warrants are initially recognised at fair value based on the Black-Scholes option pricing model, and subsequently carried at amortised cost using the straight line method over the term of the related debt facility (see note 19).

IFRS 7 fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (see note 3). The fair value hierarchy has the following levels:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Share capital

Financial instruments issued by Top Layer are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Top Layer’s common shares are classified as equity instruments.

Treasury reserve

Consideration paid/received for the purchase/sale of treasury shares is recognised directly in equity. The cost of treasury shares held is presented as a separate reserve (the “treasury share reserve”). Any excess of the consideration received on the sale of treasury shares over the weighted average cost of the shares sold is credited to retained earnings.

Redeemable convertible preference shares

Redeemable convertible preference shares do not meet the definition of equity instruments and are classified as financial liabilities. To the extent that there is an equity element to the financial instrument Top Layer records it at fair value in equity (see also note 18).

Retirement benefits

Contributions to Top Layer's defined contribution pension scheme are charged to the consolidated statement of comprehensive income in the year to which they relate.

Share-based payments

Where equity settled shares options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive income is charged with the fair value of goods and services received.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset are transferred to Top Layer (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to Top Layer (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where Top Layer is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Property, plant and equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Expenditures for repairs and maintenance are expensed as incurred. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the related assets. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income.

The estimated useful lives of Top Layer’s fixed assets are as follows:

Machinery and equipment	3 years
Fixtures and fittings	5 years
Leasehold improvements	Useful life or lease term, whichever is the shorter

Intangible assets

Computer software

Computer software is recognised on the basis of the costs incurred to acquire and bring to use the specific software. Costs are amortised, once commissioned, over their estimated useful lives of three years on a straight line basis.

Impairment of non-financial assets

At each reporting date, property, plant and equipment are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets “cash generating unit”) is estimated (selling prices less costs to complete and sell or value in use)and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) (other than goodwill) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventory

Inventory is stated at the lower of cost or net realisable value. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. Rapid technological change and new product introductions and enhancements could result in excess or obsolete inventory. To minimise this risk, Top Layer evaluates inventory levels and expected usage on a periodic basis and records valuation allowances as required.

3. Critical accounting estimates and judgements

Use of Estimates

Top Layer makes certain estimates and assumptions regarding the future that affect the reported amounts of assets and liabilities and of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of

causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below.

Estimates and assumptions

(a) Fair value of financial instruments

Top Layer determines the fair value of financial instruments that are not quoted, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

(b) Deferred tax balance

Top Layer has not recognised a deferred tax asset in respect of accumulated tax losses, because the availability of future taxable profits is not reasonably certain at this stage. However, future trading profits may allow for the utilisation of these losses and therefore decrease the future tax charges.

(c) Fair value of share based payments

As a private business Top Layer must determine the fair value of its share-based payments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and are not necessarily representative of the effects on reported results of operations for future years.

4. Financial instruments – Risk management

Top Layer is exposed through its operations to the following financial risks:

- Market risk
- Credit risk
- Liquidity risk
- Technological obsolescence risk

In common with all other businesses, Top Layer is exposed to risks that arise from its use of financial instruments. This note describes Top Layer's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout this financial information.

A summary of the financial instruments held by category is provided below:

	<i>2008</i>	<i>2009</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Financial assets		
<i>Loans and receivables</i>		
Trade and other receivables	2,519	3,076
Cash and cash equivalents	552	614
	<u>3,071</u>	<u>3,690</u>
Financial liabilities		
<i>Measured at amortised cost</i>		
Loans and other borrowings	9,344	9,570
Other – trade and other payables	4,583	6,583
Share warrants	–	288
	<u>13,927</u>	<u>16,441</u>

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses), for each class of financial asset, financial liability and equity instrument are disclosed in note 2 to this consolidated financial information.

Fair Value of Financial Instruments

The carrying amounts of Top Layer’s financial instruments, which include cash and cash equivalents, accounts receivable, notes receivable from shareholders, accounts payable, accrued expenses and notes payable, approximate their fair values at 31 December 2008 and 31 December 2009.

Financial instruments measured at fair value

	2008 US\$'000	2009 US\$'000
Level 3 – fair value at 31 December		
Liabilities		
Share warrants	—	288

The assumptions used in determining the fair value of share warrants are disclosed in note 19. The entire balance relates to share warrants issued during the year. Accordingly, there are no other movements in the fair value of level 3 financial instruments.

Market risk

Market risk arises from Top Layer’s use of interest bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to Top Layer. Financial instruments that potentially expose Top Layer to concentrations of credit risk include cash, cash equivalents and accounts receivable. Top Layer has adopted several policies to mitigate the risk of financial loss from defaults.

Top Layer invests its excess cash in money market funds of major financial institutions, which are subject to minimal credit and market risk.

To minimize risk, ongoing credit evaluations of customers' financial condition are performed, although collateral is not generally required. As of 31 December 2008 and 31 December 2009, four customers accounted for 34 per cent. and 49 per cent. of gross accounts receivable, respectively. For the years ended 31 December 2008 and 31 December 2009, five customers accounted for 27 per cent. and 17 per cent. of total revenue, respectively. No one customer accounted for more than 10 per cent. of total revenue in either year.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of Top Layer’s short, medium and long term funding and liquidity management requirements. Top Layer managed liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	<i>Up to 3 months US\$'000</i>	<i>Between 3 and 12 months US\$'000</i>	<i>Between 1 and 2 years US\$'000</i>	<i>Between 2 and 5 years US\$'000</i>
At 31 December 2008				
Trade and other payables	2,236	2,347	–	–
Loans and borrowings	860	6,878	–	1,606
	<u>3,096</u>	<u>9,225</u>	<u>–</u>	<u>1,606</u>
	<i>Up to 3 months US\$'000</i>	<i>Between 3 and 12 months US\$'000</i>	<i>Between 1 and 2 years US\$'000</i>	<i>Between 2 and 5 years US\$'000</i>
At 31 December 2009				
Trade and other payables	2,510	4,073	–	–
Loans and borrowings	1,076	7,778	–	1,730
	<u>3,586</u>	<u>11,851</u>	<u>–</u>	<u>1,730</u>

Technological obsolescence risk

Rapid technological change and new product introductions and enhancements could result in excess or obsolete inventory. To minimise this risk, Top Layer introduced a just-in-time inventory policy during the year ended 31 December 2008. Inventory levels and expected usage is monitored on a periodic basis and valuation allowances are amended as required.

Capital disclosures

The capital structure of Top Layer consists of net debt (borrowings as detailed in note 18 offset by cash and bank balances) and equity capital as detailed in note 21.

Top Layer is not exposed to any externally imposed capital requirements.

5. Expenses by nature

	<i>2008 US\$'000</i>	<i>2009 US\$'000</i>
Raw materials and consumables used	2,688	2,349
Staff costs (see note 6)	8,171	7,690
Depreciation and amortisation	70	53
Increase in allowance for doubtful receivables	330	45
Other operating expenditure	6,270	3,670
Total cost of sales and operating expenses	<u>17,529</u>	<u>13,807</u>

6. Staff costs

Staff costs (including directors) comprise:

	<i>2008 US\$'000</i>	<i>2009 US\$'000</i>
Wages, salaries and fees	6,977	6,706
Share based payments	21	44
Other benefits	607	504
Social security contributions and similar taxes	566	436
	<u>8,171</u>	<u>7,690</u>

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Top Layer, including the directors of the company and the Chief Executive Officer, Chief Technology Officer, Chief Strategy Officer, the Vice President Sales, and Vice President Engineering and Customer Services of Top Layer.

	2008 <i>US\$'000</i>	2009 <i>US\$'000</i>
Salary and fees	1,121	1,231
Compensation for loss of office	21	–
Share based payments	14	32
Other benefits	–	–
	<u> </u>	<u> </u>

7. Segmental information

External revenue by location of customer is reported to key management personnel, however, this information is only reported prior to deferred revenue adjustments required by IAS. Revenue by location of customer during the years ended 31 December 2008 and 31 December 2009 was as follows:

	2008 <i>US\$'000</i>	2009 <i>US\$'000</i>
USA	8,161	9,808
Europe	3,296	2,823
Asia	1,425	705
	<u> </u>	<u> </u>
Billings prior to deferred revenue adjustments	12,882	13,336
Impact of IAS 18 adjustments	(1,103)	(1,643)
	<u> </u>	<u> </u>
Revenue per consolidated statement of comprehensive income	11,779	11,693

Top Layer does not have any significant non-current assets or non-current liabilities in any location other than the USA.

8. Finance income and expense

	2008 <i>US\$'000</i>	2009 <i>US\$'000</i>
Finance income		
Interest received on bank deposits	–	5
	<u> </u>	<u> </u>
Total finance income	–	5
	<u> </u>	<u> </u>
Finance expense		
Interest expense on financial liabilities measured at amortised cost	788	1,185
Dividends payable on redeemable convertible preference shares	1,081	125
	<u> </u>	<u> </u>
Total finance expense	1,869	1,310
	<u> </u>	<u> </u>
Net finance expense recognised in profit or loss	1,869	1,305

9. Income tax

Top Layer did not recognise a tax charge or credit in the year ended 31 December 2009. In the year ended 31 December 2008, Top Layer recognised a tax credit for a provision release relating to prior years.

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United States of America applied to losses for the year are as follows

	2008 US\$'000	2009 US\$'000
Current tax		
Adjustment in respect of prior period	494	–
Loss before tax	(7,619)	(3,419)
Expected tax credit based on the standard rate of US corporation tax at the domestic rate of 34 per cent. (2008 – 34 per cent.)	(2,591)	(1,162)
Expenses not deductible for tax purposes	1,537	346
Unrelieved losses not recognised as deferred tax	1,051	816
Different tax rates applied in overseas jurisdictions	3	–
Prior year provision no longer required	494	–
Total tax credit	494	–

Top Layer has not recognised any deferred tax assets in respect of its accumulated tax losses. This treatment reflects the loss making position of Top Layer and the Acquisition which would result in any previously available tax losses being surrendered due to a change of control. There are no other tax impacts on the statement of comprehensive income.

10. Discontinued operations

Top Layer did not have any material discontinued operations in the years ended 31 December 2008 and 31 December 2009.

11. Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the relevant year. The redeemable convertible preference shares and common share options outstanding were non-dilutive for both periods. Accordingly, the diluted loss per share is the same as the basic amount.

<i>Numerator</i>	2008 US\$'000	2009 US\$'000
Loss for the year and earnings used in the basic and diluted EPS	(7,125)	(3,419)
<i>Denominator</i>	2008 Number	2009 Number
Number of common shares	160,954	247,739
Loss per share (US\$)	44.27	13.80

The weighted average number of shares has been adjusted in the period to reflect the capital reorganisation in June 2008.

The following table provides illustrative loss per share information for Top Layer based on Corero's weighted average number of ordinary shares outstanding during the years ended 31 December 2008 and 31 December 2009.

<i>Denominator</i>	<i>2008</i> <i>Number</i>	<i>2009</i> <i>Number</i>
Number of common shares	1,518,990	1,518,990
Loss per share (US\$)	<u>4.69</u>	<u>2.25</u>

The weighted average number of shares in Corero has also been adjusted in the period to reflect the capital reorganisation that took place within that company in June 2009.

12. Dividends

Top Layer neither declared, nor paid any equity dividends during the years ended 31 December 2008 and 31 December 2009. Redeemable convertible preference shares are classified as liabilities and associated dividends have been classified as finance expenses.

13. Intangible assets

	<i>Computer software US\$'000</i>
Cost	
As at 1 January 2008	606
Additions	–
Disposals	–
As at 30 December 2008	<u>606</u>
Additions	–
Disposals	–
As at 31 December 2009	<u>606</u>
Accumulated amortisation	
As at 1 January 2008	576
Provided for the year	16
Disposals	–
As at 31 December 2008	<u>592</u>
Provided for the year	10
Disposals	–
As at 31 December 2009	<u>602</u>
Net book value	
As t 1 January 2008	<u>30</u>
As at 31 December 2008	<u>14</u>
As at 31 December 2009	<u>4</u>

14. Property, plant and equipment

	<i>Machinery & Equipment at cost US\$'000</i>	<i>Furniture & fixtures lease at cost US\$'000</i>	<i>Leasehold improvements at cost US\$'000</i>	<i>Total US\$'000</i>
Cost				
As at 1 January 2008	1,431	447	160	2,038
Additions	–	–	–	–
Disposals	(50)	–	–	(50)
As at 30 December 2008	1,381	447	160	1,988
Additions	91	67	42	200
Disposals	(79)	(47)	–	(126)
As at 31 December 2009	1,393	467	202	2,062
Accumulated depreciation				
As at 1 January 2008	1,312	426	160	1,898
Provided for the year	46	8	–	54
Disposals	(23)	–	–	(23)
As at 31 December 2008	1,335	434	160	1,929
Provided for the year	38	5	1	44
Disposals	(66)	(36)	–	(102)
As at 31 December 2009	1,307	403	161	1,871
Net book value				
As at 1 January 2008	119	21	–	140
As at 31 December 2008	46	13	–	59
As at 31 December 2009	86	64	41	191

There were no capital commitments in respect of property plant and equipment at 31 December 2008 or 31 December 2009.

15. Inventory

	<i>2008 US\$'000</i>	<i>2009 US\$'000</i>
Raw materials and consumables	190	73
Finished goods	258	251
	448	324

16. Trade and other receivables

	2008 US\$'000	2009 US\$'000
Trade receivables	2,629	2,948
Less provisions for impairment of trade receivables	(319)	(30)
Trade receivables – net	2,310	2,918
Other receivables	270	125
Total financial assets other than cash and cash equivalents classified as loans and receivables	2,580	3,043
Prepayments	209	158
Total trade and other receivables	2,789	3,201
Less: non-current portion – rent deposits	(270)	(125)
Current portion	2,519	3,076

The carrying value of trade and other receivables also represents their fair value.

In determining the allowance for doubtful receivables, consideration is given to management's evaluation of recoverability of individual outstanding balances as well as to the historical pattern of collections. Based on the information available, management believe the allowance for doubtful receivables is adequate. However, actual write-offs may exceed the recorded allowance.

The following table shows the movement on the allowance for doubtful debts:

	2008 US\$'000	2009 US\$'000
At the beginning of the year	145	319
Provided during the year	330	45
Receivable written off during the year as uncollectible	(156)	(334)
	319	30

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

17. Trade and other payables

	2008 US\$'000	2009 US\$'000
Trade payables	1,400	1,103
Accruals – interest and financial fees due on loans and borrowings	2,347	4,073
Accruals – other	381	872
Other payables	455	535
Total financial liabilities, excluding loans and borrowings	4,583	6,583

The directors consider that the carrying value of trade and other payables approximate to their fair value.

Deferred income arises as a result of the policy for the recognition of revenue for software maintenance and support contracts. Typically customers are invoiced for software maintenance and support at the commencement of the contract. Contracts for maintenance and support usually cover periods of between one and three years.

18. Loans and borrowings

	2008 US\$'000	2009 US\$'000
Non-current		
Redeemable convertible preference shares	1,606	1,730
Current		
Loan notes payable to investors	6,878	6,763
Asset based finance –secured	860	1,077
	<u>7,738</u>	<u>7,840</u>
Total loans and borrowings	<u>9,344</u>	<u>9,570</u>

The fair value of the loans and borrowings approximates to their book value. Top Layer considers that the redeemable convertible preference shares do not have a material equity portion.

Principal terms and the debt repayment schedule of Top Layer's loans and borrowings are as follows:

	<i>Nominal rate %</i>	<i>Year of Maturity</i>
Senior loan notes (secured)	11.0	2009
Bridge Senior loan notes (secured)	12.0	2010
Asset based finance (secured)	22.5	2010
Redeemable convertible preference shares	8.0	2013

Redeemable convertible preference shares

Top Layer issued 10,203,033 Series AA Redeemable Convertible Preference Shares with a par value of US\$0.1511055 per share on 28 June 2008. The shares become redeemable at any time on or after 26 June 2013 and accrue dividends at 8 per cent. of the issue price (\$0.1511055).

Senior loan notes and Bridge Senior loan notes

On 15 August 2006, the Company entered into a purchase and security agreement (“the Agreement”) for subordinated convertible secured loan notes. The loan notes consisted of US\$5,878,000 of Senior Convertible Notes (the “Notes”) that had an original maturity date of 31 December 2007. On 14 January 2008, the loan notes maturity was extended to April 15 2008.

The loan notes expiration was again extended on 24 July 2008 to 31 December 2009. The amendment to the loan notes also stated that the investors, CrossHill Debt II L.P., CrossHill Georgetown Capital L.P., and Loudwater Trust Limited were entitled to an accrued success fee and accrued interest amount of US\$1,375,732 and US\$699,288, respectively. These accrued balances accrue payment in kind interest at 2 per cent. per annum. Upon redemption of the notes, the payment in kind interest will be satisfied by a further issue of Notes at a value equal to the amount of such accrued interest. These amounts are recorded in accrued expenses.

The amendment on 24 July 2008 also nullified all conversion rights previously held by the note holders. All of the notes are redeemable upon the earlier of the expiration date of the notes or seven days after the listing of the Company.

On 27 October 2008 and on 24 November 2008 the Agreement was amended to allow for the issuance of Senior Notes with values of US\$500,000 and US\$500,000, respectively. The Notes accrue interest at 11 per cent. per year.

On 29 July 2009 and 29 October 2009, the Agreement was amended to allow for the issuance of Bridge Senior Notes with values of US\$300,000 and US\$600,000, respectively. Interest on the new Bridge Senior Notes accrues at the rate of 12 per cent. per annum. All Senior and Senior Bridge Notes are redeemable at

the election of the note holders on the redemption date of 31 December 2010. All of the Notes also become redeemable upon the listing of the Company.

In conjunction with the issuance of the Bridge Senior Notes in July and October 2009, the Company issued common share warrants. The unamortized value of which is reflected in the table above as Bridge Senior Note discount (see note 19 for additional details of these warrants). In addition to the warrants issued, the note holders were entitled to a bridge note fee in the amount of US\$900,000. The Bridge Note fee was fully earned on the date of issuance of the Bridge Senior Notes and is payable at the earlier of the bridge payment date or the date that the Company repays all outstanding amounts owed on the Bridge Senior Notes. The Company recorded this US\$900,000 bridge fee against Bridge Senior Notes and is amortising the cost over the remaining maturity period of the Bridge Senior Notes. US\$132,500 was amortised during 2009.

All the Company's intellectual properties are collateralized under the agreement.

Asset based finance

During 2008, the Company entered into a financing agreement with an asset-based lender ("Asset Based Finance"). The terms of the Asset Based Finance allows the Company to borrow up to US\$750,000, (amended to US\$1,250,000 in 2009) or 80 per cent. of existing qualifying accounts receivable, as defined, to fund operations. The lender has a security interest in all accounts receivable financed. Interest accrues at 1.875 per cent. per month under the agreement. As of 31 December 2009, US\$1,076,500 was outstanding under this arrangement and US\$173,500 was available for future borrowings. This agreement is renewable annually until terminated by either party.

19. Share warrants

In conjunction with the Bridge Senior Notes issued in July and October 2009, the investors were granted warrants for 218,108 and 1,457,841 shares, respectively, of common shares with an exercise price of US\$0.01 per share. The fair value of the warrants was estimated to be US\$288,200. The warrants were immediately exercisable and expire on 29 July and 29 October 2016, respectively. Accordingly, the warrants have been classified as non-current liabilities.

Top Layer calculated the fair value of the warrants using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.12 per cent., no dividend yield, or volatility rate, exercise price of US\$0.01 and estimated fair value of common shares of US\$0.18 per share and a contractual warrant life of seven years. The Warrants have anti-dilution features which make it impossible to determine the number of shares they will convert into. The warrants are being amortized on a straight-line basis over the term of the related debt and had accumulated amortization of US\$41,172 as at 31 December 2009.

20. Share capital

	2008 <i>Number</i>	<i>Authorised</i>		2009 <i>US\$</i>
		2008 <i>US\$</i>	2009 <i>Number</i>	
Common shares of 1c each	15,000,000	150,000	15,000,000	150,000
Series AA convertible redeemable preference shares	10,203,033	1,541,734	10,203,033	1,541,734
Total	<u>25,203,033</u>	<u>1,691,734</u>	<u>25,203,033</u>	<u>1,691,734</u>

Common shares of 1c each

	2008 Number	Issued and fully paid		2009 US\$
		2008 US\$	2009 Number	
At beginning of the year	1,679,069	16,800	318,549	3,186
Recapitalisation (see below)	(1,563,539)	(15,644)	–	–
Conversion of Junior Convertible Loan Notes	248,849	2,488	–	–
Surrender of common shares	(45,830)	(458)	(141,620)	(1,416)
Total	<u>318,549</u>	<u>3,186</u>	<u>176,929</u>	<u>1,770</u>

In June 2008, the Company underwent an equity recapitalisation, through which the Company performed a one-for-500 reverse share split, whereby, each share outstanding was converted to 1/500th of a common share. In addition, the Junior Convertible Notes that were issued on 15 August 2006 and had a face value of US\$11,472,900 on the date of recapitalisation were exchanged for 248,849 of the Company's common shares. The Company also received US\$1,541,735 in exchange for 10,203,033 Shares of Series AA redeemable convertible preference shares (see below). This cash was used by the Company to eliminate the outstanding line of credit.

Series AA Redeemable convertible preference shares of 1c each

	2008 Number	Issued and fully paid		2009 US\$
		2008 US\$	2009 Number	
At beginning of the year	–	–	10,203,033	102,030
Issued during the year	10,203,033	102,030	–	–
Total	<u>10,203,033</u>	<u>102,030</u>	<u>10,203,033</u>	<u>102,030</u>

The redeemable convertible preference shares with a par value of US\$0.01 were issued for a total consideration of US\$1,541,734 and accrue dividends at an annual rate of US\$0.0120884, per share, payable when and if declared by the Board of Directors or in the event of a mandatory conversion. The redeemable convertible preference shares are classified as liabilities (see also note 18)

Redeemable convertible preference shares of 1c each

	2008 Number	Issued and fully paid		2009 US\$
		2008 US\$	2009 Number	
At beginning of the year	49,710,686	497,107	–	–
Conversion to common shares	(49,710,686)	(497,107)	–	–
Total	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

All redeemable convertible preference shares in issue at 1 January 2008 were converted to common shares as part of the recapitalisation of the Company. Prior to the recapitalisation these shares were classified as liabilities.

Series F and Series Z Convertible preference shares of 1c each

	2008 Number	Issued and fully paid		2009 US\$
		2008 US\$	2009 Number	
At beginning of the year	21,392,291	218,600	–	–
Conversion to common shares	(21,392,291)	(218,600)	–	–
Total	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

All Series F and Series Z convertible preference shares in issue at 1 January 2008 were converted to common shares as part of the recapitalisation of the Company. Prior to the recapitalisation these shares were classified as liabilities.

21. Reserves

The following describes the nature and purpose of each reserve within equity

<i>Reserve</i>	<i>Description</i>
Share premium	Amount subscribed for share capital in excess of nominal value
Treasury reserve	Weighted average cost of own shares held in treasury
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations in to US dollars
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere

22. Total comprehensive loss

Total comprehensive loss is comprised of net loss and currency translation adjustments in respect of the consolidation of foreign entities. There are no other adjustments to comprehensive loss.

23. Leases

Operating leases

Operating leases relate to property with lease terms of between 1 and 5 years.

The following are the total commitments under non-cancellable operating leases at their future value:

	<i>Property</i>	
	<i>2008</i>	<i>2009</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Not later than one year	293	113
Later than one year and not later than 5 years	–	1,153
Later than 5 years	–	179
	<u>–</u>	<u>1,445</u>

24. Retirement benefits

Top Layer operates a defined contribution pension scheme. Top Layer did not make any contributions to the scheme on behalf of its employees during the years ended 31 December 2008 and 31 December 2009.

25. Share based payments

In July 2008, Top Layer's shareholders approved the 2008 Equity Incentive Plan (the "Plan") which provides for the grant of incentive share options, nonqualified share options and restricted share for the purchase of up to 1,866,408 of Top Layer's common shares by officers, employees, nonemployee directors and consultants of Top Layer. Incentive share options may be granted to any officer or employee at an exercise price per share of not less than the fair market value per common share on the date of grant (not less than 110 per cent. of fair market value in the case of holders of more than 10 per cent. of Top Layer's shares). No shares may be exercised after the expiration of ten years from the grant date. The Board of Directors is responsible for administration of the Plan.

Activity under the plan during the two years ended 31 December 2009 was as follows:

	2008		2009	
	Shares	Weighted – Average Exercise price	Shares	Weighted – Average Exercise price
Outstanding at beginning of year	8,797	US\$79.93	1,632,061	US\$0.54
Granted	1,703,000	US\$0.18	61,000	US\$0.18
Exercised	–	–	–	–
Forfeited	(79,736)	US\$0.50	(118,673)	US\$0.43
Outstanding at end of year	<u>1,632,061</u>	<u>US\$0.54</u>	<u>1,574,388</u>	<u>US\$0.54</u>
Weighted average fair value of options granted during the year		US\$0.09		US\$0.09
Options available for future grant	<u>234,347</u>		<u>292,020</u>	

The following table summarises information regarding share options outstanding at 31 December 2009:

Exercise price	Options outstanding		Options exercisable	
	Shares outstanding	Weighted – Average Remaining Contractual Life (in years)	Shares outstanding	Weighted – Average Remaining Contractual Life (in years)
US\$0.18	1,566,500	8.57	541,448	8.55
US\$25.00	7,877	3.07	7,856	3.06
US\$21,495.00	5	0.05	5	0.05
US\$42,990.00	6	0.79	6	0.79
	<u>1,574,388</u>	<u>8.54</u>	<u>549,315</u>	<u>8.47</u>

The following information is relevant in the determination of the fair value of options granted during the two year period under the equity settled share based remuneration schemes operated by Top Layer.

	2008	2009
	US\$	US\$
Option pricing model	Black-Scholes	Black-Scholes
Risk free interest rate	3.08 – 3.71%	2.67%
Expected dividend yield	–%	–%
Expected life	7.5 years	7.5 years
Expected volatility	40%	40%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on the experience of comparable publicly traded companies.

The share-based remuneration recognised as an expense is disclosed in note 6 above.

26. Contingent liabilities

During the years ended 31 December 2008 and 31 December 2009, Top Layer was party to two outsourced manufacturing agreements with two third parties for assembling its products. Under the agreements, in the case of an order cancelation, a schedule decrease or termination of either agreement, Top Layer was committed to buy back all of the work-in-progress, finished goods and excess raw material on hand at the manufacturers at that time. As of 31 December 2008 and 2009, the third party manufacturers held \$637,000 and \$162,650 of inventory that related to orders from Top Layer, respectively.

27. Ultimate controlling party

During 2008 and 2009 Top Layer was controlled by its two main shareholders, CrossHill Debt II L.P., CrossHill Georgetown Capital L.P., and Loudwater Trust Limited. Following the Acquisition Top Layer will be a wholly owned subsidiary of Corero plc.

28. Notes supporting the statement of cash flows

At 31 December 2008 and 31 December 2009 cash and cash equivalents consisted of short term bank deposits.

Significant non-cash transactions are as follows:

	2008	2009
	<i>US\$'000</i>	<i>US\$'000</i>
<i>Financing activities</i>		
Issue of common share warrants	–	288
Accretion of redeemable preference shares	1,017	–
Conversion of preference shares in to common shares	73,682	–
Conversion of Junior convertible loan notes to common shares	11,473	–
Accretion of Series AA redeemable preference shares	64	125
	<hr/>	<hr/>

SECTION C

ACCOUNTANT'S REPORT ON TOP LAYER FOR THE YEAR ENDED 31 DECEMBER 2007



BDO LLP
Prospect Place
85 Great North Road
Hatfield
Hertfordshire
AL9 5BS

The Directors
Corero plc
169 High Street
Rickmansworth
Hertfordshire
WD3 1AY

7 February 2011

finnCap Ltd
60 New Broad Street
London
EC2M 1JJ

Dear Sirs

Corero plc (the “Company”) and its subsidiary undertakings (together, the “Group”)

Top Layer Networks Inc.

Introduction

We report on the financial information set out in Section D of Part III. This financial information has been prepared for inclusion in the admission document dated 7 February 2011 of Corero plc (the “Admission Document”) on the basis of the accounting policies set out in note 2 to the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The directors of the Company 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 accounting principles generally accepted in the United States of America (“US GAAP”).

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.

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

Basis of opinion

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

and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

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

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of Top Layer Networks Inc. as at 31 December 2007 and of its consolidated loss cash flow and changes in equity for the year then ended in accordance with the basis of preparation set out in note 1 to the financial information and has been prepared in accordance with US GAAP as described in note 1 to the financial information.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies 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 for Companies.

Yours faithfully

DRAFT

BDO LLP
Chartered Accountants

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

SECTION D

FINANCIAL INFORMATION ON TOP LAYER FOR THE YEAR ENDED 31 DECEMBER 2007

Consolidated balance sheet at 31 December 2007

	<i>Notes</i>	<i>\$'000</i>
Assets		
Current assets		
Cash and cash equivalents		520
Accounts receivable, net of allowances of \$145,000		4,102
Inventory	3	1,825
Prepaid expenses and other current assets		364
Total current assets		6,811
Property, plant and equipment, net	4	161
Other assets		280
Total assets		7,252
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' deficit		
Current liabilities		
Accounts payable		2,093
Accrued expenses	5	4,933
Deferred revenue		3,037
Notes payable	6	17,351
Bank line of credit	7	1,042
Total current liabilities		28,456
Deferred revenue, net of current portion		896
Total liabilities		29,352
Redeemable convertible preferred stock:		
Series I redeemable convertible preferred stock, \$0.01 par value, 5,899,159 shares authorised, issued and outstanding at 31 December 2007		8,879
Series H redeemable convertible preferred stock, \$0.01 par value, 16,000,000 shares authorised, 14,427,578 issued and outstanding at 31 December 2007		19,340
Series G redeemable convertible preferred stock, \$0.01 par value, 32,939,208 shares authorised, 29,383,949 issued and outstanding at 31 December 2007		44,228
Redeemable convertible preferred stock		72,447
Stockholder's Deficit		
Series F convertible preferred stock, \$0.01 par value; 6,925,733 shares authorised, 6,910,142 issued and 6,458,558 shares outstanding at 31 December 2007		69
Series Z preferred stock, \$0.01 par value; 15,000,000 shares authorised, 14,933,733 issued and 13,011,303 shares outstanding at 31 December 2007		150
Common stock, \$0.01 par value, 85,000,000 authorised; 1,679,069 shares issued and outstanding at 31 December 2007		17
Treasury stock, preferred stock, at cost, 2,374,014 shares at 31 December 2007		(10)
Treasury stock, common stock, at cost, 9,843 shares at 31 December 2007		(413)
Additional paid-in capital		45,886
Accumulated other comprehensive loss		(302)
Accumulated deficit		(139,944)
Total Stockholders' deficit		(94,547)
Total liabilities, redeemable convertible preferred stock and stockholders' deficit		7,252

Consolidated statement of operations and comprehensive loss for the year ended 31 December 2007

	<i>\$'000</i>
Revenue	
Product	10,425
Services	4,892
	<hr/>
Total revenue	15,317
Cost of revenue	3,155
	<hr/>
Gross margin	12,162
	<hr/>
Operating expenses	
Sales and marketing	8,574
General and administrative	3,078
Research and development	1,973
	<hr/>
Total operating expenses	13,625
	<hr/>
Loss from operations	(1,463)
Interest expense	(2,833)
	<hr/>
Loss before income taxes	(4,296)
Income tax expense	(60)
	<hr/>
Net loss	(4,356)
Foreign currency translation adjustment	(57)
	<hr/>
Comprehensive loss	(4,413)
	<hr/>

Consolidated statement of changes in redeemable preferred stock and stockholders' deficit for the year ended 31 December 2007

	Redeemable convertible preferred stock		Common stock		Convertible preferred stock		Treasury stock Common		Treasury stock Preferred		Additional paid in capital \$'000	Accumulated other comprehensive income \$'000	Total Accumulated stockholders' deficit \$'000
	Shares '000	Redemption value \$'000	Shares '000	Par value \$'000	Shares '000	Par value \$'000	Shares '000	Cost \$'000	Shares '000	Par value \$'000			
Balance at 1 January 2007	49,711	68,380	1,679	17	21,844	219	10	(413)	2,374	(10)	49,939	(245)	(86,081)
Accretion to redemption value of redeemable convertible preferred stock	-	4,067	-	-	-	-	-	-	-	-	(4,067)	-	(4,067)
Other	-	-	-	-	-	-	-	-	-	-	14	-	14
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	-	(57)	(57)
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	(4,356)
Balance at 31 December 2008	49,711	72,447	1,679	17	21,844	219	10	(413)	2,374	(10)	45,886	(302)	(94,547)

Consolidated statement of cash flows for the year ended 31 December 2007

	<i>\$'000</i>
Cash flows from operating activities	
Net loss	(4,356)
Adjustments to reconcile net loss to net cash used in operation activities	
Depreciation and amortisation	114
Gain on sale of fixed assets	(90)
Provision for doubtful debts	145
Changes in operating assets and liabilities	
Accounts receivable	(345)
Inventory	(856)
Prepaid expenses, other current assets & deposits	680
Accounts payable	1,103
Other assets	178
Accrued expenses	1,830
Deferred revenue	(1,183)
Net cash used in operating activities	<u>(2,780)</u>
Cash flows from investing activities:	
Purchases of property, plant and equipment	(86)
Net cash used in investing activities	<u>(86)</u>
Cash flows from financing activities	
Proceeds from bank line of credit, net	1,042
Net cash provided by financing activities	<u>1,042</u>
Effect of foreign exchange on cash	<u>(44)</u>
Net decrease in cash and cash equivalents	(1,868)
Cash and cash equivalents at beginning of year	2,388
Cash and cash equivalents at end of year	<u>520</u>
Supplementary disclosure of cash flow information	
Cash paid for interest	352
Cash paid for income taxes	<u>7</u>

Notes to the consolidated financial information

1 General information and basis of preparation

Basis of presentation and preparation

The consolidated financial information includes the accounts of Top Layer and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated.

The financial information has been prepared in accordance with the requirements of the AIM Rules and in accordance with this basis of preparation. The financial information has been prepared in accordance with US GAAP.

Going concern

Top Layer's consolidated financial statements have been prepared assuming Top Layer will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Top Layer has incurred losses and negative cash flows from operations since inception, has negative working capital and has an accumulated deficit of \$139.9 million at 31 December 2007. Because of the continuing losses from operations and negative cash flow, it is uncertain that Top Layer will meet its obligations and its continuance is dependent on its ability to raise additional funding or equity. To date, Top Layer has been funded primarily by issuing equity securities, entering into debt arrangements and from sales transactions with customers. Following the Acquisition, Top Layer will be dependent on support from its parent company, Corero.

2 Summary of significant accounting policies

Cash and cash equivalents

Top Layer considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Top Layer invests its excess cash in money market funds or major financial institutions, which are subject to minimal credit and market risk. These investments are carried at cost, which approximates fair market value.

Fair value of financial instruments

The carrying amounts of Top Layer's financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable to stockholders, approximate their fair values at 31 December 2007.

Concentration of credit risk and significant customers

Financial instruments that potentially expose Top Layer to concentrations of credit risk include cash, cash equivalents and accounts receivable. To minimize risk, ongoing credit evaluations of customers' financial condition are performed, although collateral is not generally required. As of 31 December 2007, four customers accounted for 54 per cent. of gross accounts receivable, respectively. For the year ended 31 December 2007, five customers accounted for 27 per cent. of total revenue.

Inventory

Inventory is stated at the lower of cost or net realisable value. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. Rapid technological change and new product introductions and enhancements could result in excess or obsolete inventory. To minimise this risk, Top Layer evaluates inventory levels and expected usage on a periodic basis and records valuation allowances as required.

Property and equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Expenditures for repairs and maintenance are expensed as incurred. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the related

assets. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income.

Revenue recognition

Top Layer's revenue is derived primarily from two sources: (i) product and software sales to resellers and end users, and (ii) service revenue, which is derived from providing maintenance and support services.

Service revenue is recognised over the term the services are provided. Software is essential to the functionality of the product. Further, Top Layer provides software upgrades and enhancements relating to the equipment through maintenance and support agreements; and also offers professional services in the form of training. Accordingly, Top Layer accounts for revenue in accordance with ASC 985-605 [Prior Authoritative Guidance: SOP 97-2, Software Revenue Recognition].

Top Layer recognizes revenue when all of the following conditions are satisfied:

- (a) there is persuasive evidence of an arrangement;
- (b) delivery has occurred or services have been rendered;
- (c) the amount to be paid by the customer is fixed and determinable;
- (d) collection from the customer is probable.

When products or services are bundled in a single arrangement, the total arrangement fee is allocated to the undelivered elements based on the fair value of vendor specific evidence (VSOE), generally the sales price; when the same element is sold separately. That allocation is recorded as deferred revenue and recognized when the item or service is delivered or in case of services over the term of the service contract as services are provided. Using the residual method, the remaining consideration after the fair value of VSOE is allocated to the undelivered elements, is recorded as revenue of the delivered element. When fair value of VSOE is not established for the undelivered element, all the elements in the arrangement are then accounted for as a single unit of accounting, resulting in a delay of revenue recognition for the delivered element until all undelivered elements have been fulfilled. The total arrangement consideration is allocated first by the fair value of the VSOE of the undelivered elements which is recognized as deferred revenue and then the residual amount is recognised as revenue for the delivered element. The deferred revenue related to the undelivered item is recognized when the item is delivered or in case of the post customer support contract over the term of contract the period the services are provided, Our post customer support contract is typically for one year. In the absence of fair value of VSOE for an undelivered element, all the elements in the arrangement is then accounted for as a single unit of accounting, resulting in a delay of revenue recognition for the delivered elements until all undelivered elements have been fulfilled.

Services not bundled with product transactions can be billed on a time and materials basis and revenue recognised as earned.

Shipping charges billed to customers are included in product revenues and related shipping costs are included in product costs.

Research and development and software costs

Costs incurred in the research and development of the Top Layer's products are expensed as incurred, except for certain software development costs. Costs associated with the development of computer software included in Top Layer's products are expensed as incurred prior to the establishment of technological feasibility, as defined by ASC 985-20 [Prior Authoritative Guidance: SFAS No.86 Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed]. Costs incurred subsequent to technological feasibility and prior to the general release of the products are capitalized. No software development costs were capitalized during the year ended 31 December 2007 since costs incurred subsequent to the establishment of technological feasibility were not material. Similarly the balance sheet at 31 December 2007 does not include any amounts from prior years.

Advertising costs

Top Layer expenses costs of producing advertising and sales-related collateral materials as incurred. Advertising expense for the year ended 31 December 2007 was \$185,000.

Accounting for stock based compensation

Stock-based compensation expense recognised during 2007 is based on the value of the portion of stock-based payment awards that are ultimately expected to vest, as required by ASC No. 718-10-25 [Prior Authoritative Guidance SFAS 123(R) Share Based Payments]. Accordingly, stock-based compensation expense recognized in the statement of operations reflects estimated forfeitures. ASC No. 718-10-25 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Top Layer estimated forfeiture rates for 2007 based on its historical forfeitures of stock options.

All stock-based awards issued to non-employees are accounted for at fair value in accordance with ASC No. 718-10-25 [Prior Authoritative Guidance SFAS 123(R) Share Based Payment and Emerging Issues Task Force 96-18, Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods, or Services].

Valuation assumptions

The estimated fair value of the options granted during 2007 were calculated using a Black-Scholes option pricing model (“Black-Scholes model”). The Black-Scholes model incorporates assumptions to value stock-based awards. The risk-free interest rate is based on the implied yield currently available on zero-coupon U.S. Treasury issues, in effect at the time of the grant, whose remaining maturity period equals the stock award’s expected term assumptions. Expected volatility of Top Layer’s common stock was calculated to be 51 per cent. for 2007, based on experience of comparable publicly traded companies. The expected term was calculated using the simplified method under SEC Staff Accounting Bulletin No. 107 (“SAB 107”) as the options granted in 2007 meet the definition of plain vanilla options and other criteria under SAB 107: under this method, the expected term is 6.25 years for options granted in 2007.

The fair value of the options granted as of the date of grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

Option pricing model	Black-Scholes
Risk free interest rate	4.06 – 4.76%
Expected dividend yield	0%
Expected life	6.25 years
Expected volatility	51%

The effect on the 2007 net loss of expensing the estimated fair value of stock options issued is not necessarily representative of the effects on reported results of operations for future years as options vest over several years and Top Layer intends to grant varying levels of stock options in future periods.

As of 31 December 2007, the total unrecognized compensation expense was not material.

Comprehensive loss

Top Layer reports its comprehensive loss in accordance with ASC 220-10 [Prior Authoritative Guidance: SFAS No. 130, Reporting Comprehensive Income], which establishes standards for the reporting and display of comprehensive income/loss. Comprehensive income is comprised of net loss and other comprehensive income adjustments. These adjustments are related to currency translation gains and losses.

Foreign Currency Translation

The functional currencies of Top Layer’s foreign subsidiaries are the local currencies. Monetary assets and liabilities are translated into US Dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Expense items are translated at average exchange rates for the period. Foreign currency translation adjustments are included in accumulated other comprehensive

income as a separate component of shareholders' equity. Foreign currency transaction gains or losses are included in other income (expense) and were not significant for the year ended 31 December 2007.

Income Taxes

Top Layer accounts for income taxes using the asset and liability method in accordance with ASC 74-10 [Prior Authoritative Guidance: SFAS No. 109, Accounting for Income Taxes]. Under ASC 740-10, deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are provided if, based upon the weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not be realised.

Top Layer's policy is to recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense, if any, in its statement of operations. For the year ended 31 December 2007, no estimated interest or penalties were recognized for uncertain tax positions.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and other reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3 Inventory

Inventory consisted of the following:

	<i>\$'000</i>
Raw materials	1,535
Finished goods	290
	<hr/>
	1,825
	<hr/>

4 Property and equipment

Property and equipment consisted of the following:

	<i>Estimated useful life (in years)</i>	<i>\$'000</i>
Machinery and equipment	3	1,378
Computer software	3	606
Telecommunications equipment	5	53
Furniture and fixtures	5	437
Leasehold improvements	Term of lease	160
		<hr/>
		2,634
Less: accumulated depreciation		(2,473)
		<hr/>
		161
		<hr/>

During 2007, Top Layer disposed of assets which were fully depreciated. Depreciation and amortisation expense for the year ended 31 December 2007 was \$114,000.

5 Accrued expenses

Accrued expenses consisted of the following:

	\$'000
Employee salaries, commissions and benefits	517
Warranty costs	5
Professional fees	69
Interest	3,618
Taxes	466
Other	258
	<hr/> 4,933 <hr/>

6 Notes payable

	\$'000
Senior convertible loan notes	5,878
Junior convertible loan notes	11,473
	<hr/> 17,351 <hr/>

All convertible loan notes accrue interest at 12 per cent. per year, calculated on the basis of 365 days accruing from day to day, but not compounding, from the date of issuance, except for one Note with a value of \$2,878,000, which accrues at 10 per cent. per annum and must be paid on a monthly basis. In addition, related to this Note, Top Layer must pay, on the maturity date, a success fee of an amount equal to 6.67 per cent. on the principle amount which is outstanding in each calendar quarter or part calendar quarter up to and including the sixth calendar quarter following the issuance date, the first calendar quarter being deemed to commence on 1 July 2006.

All Top Layer's intellectual properties are collateralised under the agreement.

The convertible senior and junior secured loan notes matured on 31 December 2007. On 31 December 2007, the loan agreement, dated 15 August 2006 related to those notes was amended to extend the redemption date to 15 April 2008.

7 Line of credit

The borrowing under the asset based line of credit ("Line of Credit"), was determined based on eligible receivables of Top Layer. Interest is payable on the 21st day of each month at the prime rate plus 0.75 per cent. plus a collateral handling fee at 0.25 per cent. per month of the average daily financed receivables balance.

The Line of Credit, initially granted on 21 December 2006 for a total of \$2.5 million, expired as of 21 December 2007. On 14 January 2008 the line of credit agreement was amended to extend the maturity date to 15 April 2008. The total amount of the credit facility agreement was reduced to \$1,042,700, which was the balance outstanding as of 31 December 2007.

8 Redeemable convertible preferred stock

In August 2003, Top Layer authorized 16,000,000 shares of Series H redeemable convertible preferred stock (the "Series H preferred") and sold 10,479,931 shares for \$1.00 per share for an aggregate purchase price of \$10,479,900, of which \$6,343,300 represented the conversion of notes payable plus accrued interest. In January 2004, Top Layer issued 3,947,647 shares for \$1.00 per share of Series H preferred for an aggregate purchase price of \$3,947,700.

In July 2004, Top Layer authorized 5,899,159 shares of Series I redeemable convertible preferred stock (the "Series I preferred") and, in July and December 2004, Top Layer issued 3,453,879 and 2,445,280 shares for \$1.19 per share for an aggregate purchase price of \$4,110,100 and \$2,909,900, respectively.

In May 2005, Top Layer authorized 1,496,248 shares of Series J redeemable convertible preferred stock (the "Series J preferred") relating to the Convertible Notes issued in May and September 2005, respectively (Note 6). As of 31 December 2007, no Series J preferred was issued and outstanding.

In December 2005, Company authorized 748,000 shares of Series J-1 redeemable convertible preferred stock (the "Series J-1 preferred") relating to the Convertible Notes issued in December 2005 (Note 6). As of 31 December 2007, no Series J-1 preferred was issued and outstanding.

In March 2006, Top Layer authorized 748,000 shares of series J-2 redeemable convertible preferred stock (the "Series J-2 preferred") relating to the Convertible Notes issued in March 2006 (Note 6). As of 31 December 2007, no Series J-2 preferred was issued and outstanding.

As of 31 December 2007, there were 6,925,733, 15,000,000 and 32,939,208 shares authorized, 6,910,142, 14,933,733 and 29,383,949 shares issued, and 6,458,558, 13,011,303 and 29,383,949 shares outstanding of Series F convertible preferred stock (the "Series F preferred"), Series Z preferred stock (the "Series Z preferred"), and Series G preferred stock (the "Series G preferred"), respectively.

Voting Rights

The holders of the Series G preferred, Series H preferred, Series I preferred and Series F preferred stock are entitled to vote, together with the holders of common stock, on all matters submitted to stockholders for a vote. Each Series G preferred, Series H preferred, Series I preferred and Series F preferred stockholder is entitled to the number of votes equal to the number of shares of common stock into which each preferred share is convertible at the time of such vote. Holders of Series J preferred, Series J-1 preferred and Series Z preferred have no voting rights.

Dividend Rights

Holders of Series F preferred are entitled to receive cumulative dividends at an annual rate of \$0.17326, per share, payable when and if declared by the Board of Directors or in the event of a mandatory conversion. Holders of Series J preferred, Series J-1 preferred and Series Z preferred are not entitled to receive any dividends. The holders of the Series G preferred, Series H preferred and Series I preferred are entitled to receive, when and as declared by the Board of Directors or in the event of a liquidation, dissolution or winding-up, a mandatory conversion or redemption pursuant to Top Layer's article of incorporations, cumulative dividends at the rate of \$0.08, \$0.08 and \$0.0952 per share per annum, respectively. The Series G preferred, Series H preferred and Series I preferred dividends shall accrue annually from the date of issuance, whether or not earned or declared. Cumulative dividends of \$11,399,400, \$2,604,000 and \$735,700 have been accreted to the carrying value of the Series G, H and I preferred and been charged against additional paid-in capital.

Liquidation Preference

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of Top Layer or reorganization, merger or consolidation with another corporation under circumstances in which the holders of the voting stock of Top Layer prior thereto hold less than 50 per cent. of the voting control of the surviving corporation thereafter, or Top Layer sells, transfers, exchanges or otherwise disposes of all or substantially all of its property, assets or business, the holders of Series J preferred and Series J-1 preferred shall first be entitled to be paid out of the assets of Top Layer available for distribution to its shareholders, before any payment shall be made to the holders of Series F, Series Z, Series G, Series H and Series I preferred or common stock, an amount equal to in case of the holders of Series J preferred, if the voluntary or involuntary liquidation, dissolution or winding-up of Top Layer occurs on or before 30 June 2006, \$1.305 per share, plus an additional \$0.04 per share per month, and if the voluntary or involuntary liquidation, dissolution or winding-up of Top Layer occurs after 30 June 2006, \$1.465 per share, and in the case of the holders of Series J-1 preferred, if the voluntary or involuntary liquidation, dissolution or winding-up of Top Layer occurs on or before 30 June 2006, \$1.08 per share, plus an additional \$0.04 per share per month, and if the voluntary or involuntary liquidation, dissolution or winding-up of Top Layer occurs after 30 June 2006, \$1.24 per share.

After the payment of all preferential amounts required to be paid to the holders of Series J and J-1 preferred above, the holders of the then outstanding Series I preferred shall receive for each share an amount equal to the sum of \$2.38 per share plus all accrued but unpaid dividends, payable in preference and priority to any payments made to the holders of the then outstanding Series Z preferred, Series F preferred, Series G preferred, Series H preferred and common stock. If upon any such liquidation, dissolution or winding-up of Top Layer, the remaining assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series I preferred the full amount to which they shall be entitled, the holders of shares of Series I preferred shall share ratably in any distribution of the remaining assets and funds of Top Layer in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

Holders of Series H preferred and Series G preferred are entitled to receive for each share an amount equal to the sum of \$4.00 per share of Series H preferred and \$1.50 per share of Series G preferred, respectively, plus all accrued but unpaid dividends. If upon any such liquidation, dissolution or winding-up of Top Layer, the remaining assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series G preferred and Series H preferred the full amount to which they shall be entitled, the holders of shares of Series G preferred and Series H preferred shall share ratably in any distribution of the remaining assets and funds of Top Layer in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

Holders of Series Z preferred are entitled to receive prior to, and in preference to the holders of Series F preferred and the holders of common stock, an amount equal to \$1.00 per share. Holders of Series F preferred are entitled to receive prior to and in preference to the holders of common stock an amount equal to \$0.001 per share plus any dividends declared but unpaid on such shares.

If any net assets are remaining after the preferred stock payments, they shall be distributed pro rata among the preferred and common stockholders.

Conversion

Each share of Series G preferred, Series H preferred, Series I preferred and Series F preferred, at the option of the holder, is convertible into one share of common stock subject to adjustment in accordance with antidilution provisions contained in Top Layer's Articles of Incorporation. Series J, Series J-1 and Series Z preferred are not convertible into common stock.

Conversion is automatic immediately upon the earliest of (i) the closing of an underwritten public offering in which the public offering price equals or exceeds \$3.00 per share (adjusted to reflect subsequent stock dividends, stock splits or recapitalization) and the aggregate proceeds raised exceed \$30,000,000, or (ii) the election of the holders of more than 55 per cent. of the outstanding shares of convertible preferred stock, voting together as a single class.

A "Series J Preferred Trigger Event" shall mean, if Top Layer issues or sells any shares of preferred of Top Layer that is senior in liquidation preference to the Series J preferred (the "New Senior Preferred Stock"), and holders (the "Majority Noteholders") of at least a majority of the principal amount of the Notes convert such Notes into such New Senior Preferred Stock.

In the event of a Series J Preferred Trigger Event, each share of Series J preferred shall automatically be converted into such number of shares of New Senior Preferred Stock upon the closing of such issuance or sale as shall be equal to, if the Series J Preferred Trigger Event occurs on or before 30 June 2006, \$1.305, plus an additional \$0.04 per share per month, and if the Series J Preferred Trigger Event occurs after 30 June 2006, \$1.465, divided by the price per share paid for such shares by the Majority Noteholders.

A "Series J-1 Preferred Trigger Event" shall mean, if Top Layer issues or sells any shares of preferred of Top Layer that is senior in liquidation preference to the Series J-1 preferred (the "New Senior Preferred Stock"), and holders (the "Majority Noteholders") of at least a majority of the principal amount of the Notes convert such Notes into such New Senior Preferred Stock.

In the event of a Series J-1 Preferred Trigger Event, each share of Series J-1 preferred shall automatically be converted into such number of shares of New Senior Preferred Stock upon the closing of such issuance or sale as shall be equal to, if the Series J-1 Preferred Trigger Event occurs on or before 30 June 2006, \$1.08, plus an additional \$0.04 per share per month, and if the Series J Preferred Trigger Event occurs after 30 June 2006, \$1.24, divided by the price per share paid for such shares by the Majority Noteholders.

Redemption

Redemption of the Series G preferred, Series H preferred and Series I preferred will occur when at least 55 per cent. of the holders of the then outstanding shares of Series G preferred, Series H preferred and Series I preferred, voting together as a single class elect to redeem, anytime on or after 22 July 2005, at \$1.00 per share plus all declared but unpaid dividends. Upon request, Top Layer will redeem all outstanding shares of the Series G preferred and Series H preferred in the following manner: (i) one-third of the issued and outstanding shares 60 days after receipt of notice by Top Layer, (ii) one-third on the anniversary date of the first redemption, and (iii) one-third on the second anniversary date of the first redemption. For the years ended 31 December 2006 and 2005, charges to accrete Series G preferred to its redemption value amounted to \$3,005,600 and \$3,473,300, respectively, representing a beneficial conversion feature and cumulative dividends.

For the year ended 31 December 2007, the charge to accrete the preferred stock to its redemption value amounted to \$4,066,500.

Preferred Stock Warrants

In conjunction with the notes payable and a Senior Note issued in 2001 and 2002, Top Layer issued warrants to purchase 3,555,259 shares of Series G preferred at an exercise price of \$1.00 per share. The warrants were immediately exercisable and expired on 22 July 2007.

In 2002, Top Layer issued warrants to purchase 15,565 shares of Series F preferred and 66,242 shares of Series Z preferred to a member of the Board of Directors, at an aggregate exercise price of \$15,565. The warrants were exercisable upon issuance and expired on 23 July 2007.

9 Common stock

As at 31 December 2007, Top Layer had authorised 85,000,000 of common stock with a \$0.01 par value. In June 2008 Top Layer underwent an equity recapitalisation, through which Top Layer performed a one-for-500 reverse stock split. Each share of common stock outstanding was converted to 1/500th of a common share. In addition the Junior Convertible Notes that were issued in 2006 and had a face value of \$11,472,900 were exchanged for 248,849 shares of common stock.

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of Top Layer's common stockholders. Common stockholders are entitled to receive dividends, as may be declared by the Board of Directors, if any, subject to any preferential dividend rights on the redeemable convertible preferred stock.

10 Stock plans

Stock Incentive Program

During 1997, the stockholders approved an equity incentive program (the "Program") which provides for the sale of Top Layer's common stock on a restricted basis to employees at the fair market value of the common stock on the date of grant. The Program is administered by the Board of Directors, which determines the exercise price of the grant and the vesting period for the shares issued under the Program, generally four years. The shares issued under the Program are restricted, whereby Top Layer may repurchase the unvested shares at their original purchase price upon termination of the stockholders' employment by the Company. In 1997, 100,493 shares of common stock were issued under the Program. As of 31 December 2007, 90,650 of these shares were outstanding all of which were fully vested and 9,843 shares have been repurchased by Top Layer.

Stock Option Plan

In March 1997, Top Layer's stockholders approved the 1997 Stock Option Plan which, as amended in August 2001, provides for the grant of incentive stock options, nonqualified stock options and restricted stock for the purchase of up to 26,608,770 shares of Top Layer's common stock by officers, employees, nonemployee directors and consultants of Top Layer. Incentive stock options may be granted to any officer or employee at an exercise price per share of not less than the fair market value per common share on the date of grant (not less than 110 per cent. of fair market value in the case of holders of more than 10 per cent. of Top Layer's stock). The Plan provides that the options shall be exercisable immediately. The Board of Directors is responsible for administration of the Plan. In July 2002, as a result of a reverse stock split and the Recapitalization, the number of shares available under the Plan was reduced to 373,197 shares of Top Layer's common stock. The Plan was amended subsequently by increasing the shares reserved and available under the Plan to 8,000,000 common stock shares. In June 2008, as a result of the recapitalisation, the existing stock option plan was eliminated.

Activity under the stock option plans during the years ended 31 December 2007 was as follows:

	<i>Shares</i>	<i>Weighted Average Exercise Price</i>
Outstanding at beginning of period	5,110,568	\$0.37
Impact of recapitalisation	–	
Granted	188,000	–
Forfeited	(375,145)	\$1.84
Outstanding at end of year	<u>4,923,423</u>	\$0.25
Weighted average fair value of options granted during the year	–	
Options available for future grant	2,250,395	

The following table summarizes information regarding stock options outstanding at 31 December 2007:

<i>Exercise Price</i>	<u><i>Options Outstanding</i></u>		<u><i>Options Exercisable</i></u>	
	<i>Shares Outstanding</i>	<i>Weighted- Average Remaining Contractual Life (in Years)</i>	<i>Shares Outstanding</i>	<i>Weighted- Average Remaining Contractual Life (in Years)</i>
\$0.03 – \$0.05	4,902,807	5.31	4,769,274	5.20
\$1.43 – \$7.60	7,274	0.49	7,274	0.49
\$17.91 – \$64.48	5,181	2.14	5,181	2.14
\$71.65 – \$93.14	8,161	2.81	8,161	2.81
	<u>4,923,423</u>	<u>5.30</u>	<u>4,789,890</u>	<u>5.18</u>

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between Top Layer's fair value of common stock as of and 31 December 2007 and the exercise price, multiplied by the number of in-the-money stock options) that would have been received by the stock option holders had all stock option holders exercised their stock options on 31 December 2007. The amount of aggregate intrinsic value will change based on the fair value of Top Layer's common stock.

No options were exercised in 2007. Top Layer did not recognize compensation expense related to stock options for the year ended 31 December 2007.

11 Income Taxes

The significant components of the net deferred tax asset are as follows:

	<i>\$'000</i>
Net operating losses	37,722
Research and development credit carryforwards	3,558
Accrued expenses	711
Capitalised research and development expenses	9,439
Deferred revenue	361
Gross deferred tax assets	51,791
Valuation allowance	(51,791)
Net deferred tax asset	—

Top Layer has provided a valuation allowance for the full amount of its deferred tax assets since realisation of these future benefits was not sufficiently assured at 31 December 2007.

12 Employee Retirement Plan

In 1998, Top Layer adopted a defined contribution retirement savings plan under the guidelines of Section 401 (k) of the Internal Revenue Code. This plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. Company contributions to the plan may be made at the discretion of the Board of Directors. There were no contributions made by Top Layer since inception of the plan through 31 December 2007.

13 Commitments and Contingencies

Litigation

From time to time Top Layer is a defendant in various legal and administrative proceedings and claims of various types. Although such litigation contains an element of uncertainty, management in consultation with Top Layer's general counsel, presently believes that the outcome of such proceedings or claims which are pending or known to be threatened, or all of them combined, will not have a material adverse affect on Top Layer.

Leases

Top Layer leases its office facilities and certain equipment under various operating leases. Total rent expense under these operating leases was \$789,717 during the year ended 31 December 2007. Future minimum lease commitments under non-cancellable operating leases as of 31 December 2007 are as follows:

	<i>\$'000</i>
2008	424
2009	262
	686

Top Layer's U.S. office lease has a period of reduced rent at the beginning of its term. Lease expense has been straight-lined over the term of the lease with the difference between amounts expensed and amounts paid recorded as accrued rent.

Outsourced Manufacturing Agreement

During 2007, Top Layer was party to two outsourced manufacturing agreements with two third parties for assembling Top Layer's products. Under the agreements, in the case of an order cancellation, a schedule decrease or termination of either agreement, Top Layer was committed to buy back all of the work-in-process, finished goods and excess raw material on hand at the manufacturers at that time. As of 31 December 2007, the third party manufacturers held \$842,000 of inventory that relates to orders from Top Layer.

Guarantees

Top Layer enters into standard indemnification agreements in its ordinary course of business. Pursuant to these agreements, Top Layer indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally Top Layer's business partners or customers, in connection with any U.S. patent, or any copyright or other intellectual property infringement claim by any third party with respect to Top Layer's products. The term of these indemnification agreements vary. The maximum potential amount of future payments Top Layer could be required to make under these indemnification agreements is unlimited. Top Layer has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, Top Layer believes the estimated fair value of these agreements is minimal. All of these indemnification agreements were grandfathered under the provisions of FIN No. 45 as they were in effect prior to 31 December 2002. Accordingly, Top Layer had no liabilities recorded for these agreements as of 31 December 2007.

14 Subsequent events

Line of credit

On 16 April 2008 Top Layer received a notice of default in respect of its Line of Credit. The notice stated that on 15 April 2008 the loan and security agreement became fully due and payable.

On 25 April 2008 the Line of Credit was assigned of Loudwater Trust Limited and CrossHill Debt II, L.P. (the "Assignees") from the bank. As part of the assignment the Assignees paid the bank the amount outstanding plus any accrued interest that was due as of 25 April 2008.

In June 2008, Top Layer exchanged the Line of Credit for 10,203,033 shares of Series AA convertible preferred stock. The Series AA shares have rights senior to the Common Stock with respect to, among other things, the right to receive distributions on liquidation of Top Layer.

During 2008 Top Layer entered into a new financing agreement with an asset based lender. The terms of the agreement allow Top Layer to borrow up to \$750,000 (amended to \$1,250,000 in 2009) of existing qualifying accounts receivable, as defined, to fund operations at 1.875 per cent. per month.

Common stock

In June 2008, as a condition of the conversion of the Line of Credit into Series AA convertible preferred stock, Top Layer performed a one-for-500 reverse stock split. Each share of common stock outstanding was converted to 1/150th of a common share.

Preferred stock

Under the terms of the recapitalisation, the holders of the Preferred Stock converted their shares into shares of common stock and surrendered all shares of Series Z Preferred Stock to Top Layer for Cancellation and in exchange for payment equal to \$0.0001 per share. The holders of Convertible Preferred Stock also waived Top Layer's obligation to pay the accrued dividends.

Notes payable

On 14 January 2008, the loan notes maturity was extended to 15 April 2008.

During June 2008, in addition to the conversion of common shares, the junior convertible loan notes were exchanged for 248,849 shares of Top Layer's common stock.

On 24 July 2008 the senior notes were amended and restated to extend the maturity date to 31 December 2009. The amendment to the loan notes also stated that the investors, Crosshill and Loudwater Trust Limited were entitled to an accrued success fee and accrued interest amount of \$1,375,732 and \$699,288, respectively. These accrued balances accrue payment in kind interest at 2 per cent. per annum. Upon redemption of the notes, the payment in kind interest will be satisfied by a further issue of Notes at a value equal to the amount of such accrued interest. These amounts are recorded in accrued expenses.

The amendment on 24 July 2008 also nullified all conversion rights previously held by the note holders. All of the notes are redeemable upon the earlier of the expiration date of the notes or seven days after the listing of Top Layer.

On 27 October 2008 and on November 2008 the Agreement was amended to allow for the issuance of Senior Notes with values of \$500,000 and \$500,000, respectively. The Notes accrue interest at 11 per cent. per year.

On 29 July 2009 and 29 October 2009, the Agreement was amended to allow for the issuance of Bridge Senior Notes with values of \$300,000 and \$600,000, respectively. Interest on the new Bridge Senior Notes accrues at the rate of 12 per cent. per annum. All Senior and Senior Bridge Notes are redeemable at the election of the note holders on the redemption date of 31 December 2010. All of the Notes also become redeemable upon the listing on an investment exchange.

In conjunction with the issuance of the Bridge Senior Notes in July and October 2009, the Company issued common share warrants. The unamortized value of which is reflected in the table above as Bridge Senior Note discount (see below for details of share warrants). In addition to the warrants issued, the note holders were entitled to a bridge note fee in the amount of \$900,000. The Bridge Note fee was fully earned on the date of issuance of the Bridge Senior Notes and is payable at the earlier of the bridge payment date or the date that the Company repays all outstanding amounts owed on the Bridge Senior Notes. The Company recorded this \$900,000 bridge fee against Bridge Senior Notes and is amortising the cost over the remaining maturity period of the Bridge Senior Notes. \$132,500 was amortised during 2009.

All the Company's intellectual properties are collateralized under the agreement.

Share warrants

In conjunction with the Bridge Senior Notes issued in July and October 2009, the investors were granted warrants for 218,108 and 1,457,841 shares, respectively, of common shares with an exercise price of US\$0.01 per share.

Stock plans

In July 2008, following the recapitalization, Top Layer's stockholders approved the 2008 Equity Incentive Plan (the "Plan") which provides for the grant of incentive stock options, nonqualified stock options and restricted stock for the purchase of up to 1,866,408 shares of Top Layer's common stock by officers, employees, nonemployee directors and consultants of Top Layer. Incentive stock options may be granted to any officer or employee at an exercise price per share of not less than the fair market value per common share on the date of grant (not less than 110 per cent. of fair market value in the case of holders of more than 10 per cent. of Top Layer's stock). No shares may be exercised after the expiration of ten years from the grant date. The Board of Directors is responsible for administration of the Plan.

SECTION E

UNAUDITED INTERIM FINANCIAL INFORMATION ON TOP LAYER FOR THE SIX MONTHS ENDED 30 JUNE 2010

Interim Statement of Comprehensive Income for the 6 months ended 30 June 2010

	<i>Unaudited six months ended 30 June 2009 US\$'000</i>	<i>Unaudited six months ended 30 June 2010 US\$'000</i>
Revenue	5,858	5,269
Cost of sales	1,229	1,002
Gross profit	<u>4,629</u>	<u>4,267</u>
Operating expenses	5,754	4,650
Loss from operations	<u>(1,125)</u>	<u>(383)</u>
Finance income	7	29
Finance expenses	(568)	(1,082)
Loss before taxation	<u>(1,686)</u>	<u>(1,436)</u>
Income tax expense	–	–
Loss for the year	<u>(1,686)</u>	<u>(1,436)</u>
Other comprehensive loss		
Exchange losses arising on translation of foreign operations	(144)	(98)
Total comprehensive loss for the year attributable to the owners of Top Layer	<u>(1,830)</u>	<u>(1,534)</u>
Loss per share attributable to the common equity holders of Top Layer during the year		
Basic and diluted (US\$ per share)	<u>5.29</u>	<u>8.05</u>

Interim Statement of Financial Position at 30 June 2010

	<i>Unaudited six months ended 30 June 2009 US\$'000</i>	<i>Unaudited six months ended 30 June 2010 US\$'000</i>
Assets		
Non-current assets		
Intangible assets	7	1
Property, plant and equipment	42	165
Other receivables	226	135
	<u>275</u>	<u>301</u>
Current assets		
Inventory	802	600
Trade and other receivables	2,843	2,096
Cash and cash equivalents	148	94
Total current assets	<u>3,793</u>	<u>2,790</u>
Total assets	<u>4,068</u>	<u>3,091</u>
Liabilities		
Non-current liabilities		
Deferred income	2,342	2,100
Loans and borrowings	1,667	1,792
Share warrants	–	288
Total non-current liabilities	<u>4,009</u>	<u>4,180</u>
Current liabilities		
Trade and other payables	5,653	6,751
Deferred income	3,412	3,988
Loans and borrowings	7,612	8,007
Total current liabilities	<u>16,677</u>	<u>18,746</u>
Total liabilities	<u>20,686</u>	<u>22,926</u>
NET LIABILITIES	<u>(16,618)</u>	<u>(19,835)</u>
Issued capital and reserves attributable to owners of the parent		
Share capital	3	2
Additional paid in capital	131,391	132,515
Foreign exchange reserve	(573)	(688)
Retained loss	(147,439)	(151,664)
TOTAL EQUITY	<u>(16,618)</u>	<u>(19,835)</u>

Interim Statement of Cash flows for the 6 months ended 30 June 2010

	<i>Unaudited six months ended 30 June 2009 US\$'000</i>	<i>Unaudited six months ended 30 June 2010 US\$'000</i>
Cash flows from operating activities		
Loss for the year	(1,686)	(1,436)
Adjustments for:		
Depreciation and amortisation of non-current assets	18	29
Share based payments	12	10
Finance income	7	29
Finance expense	568	1,082
Loss on sale of property, plant and equipment	21	–
Prior year audit adjustment	–	25
	<u>(1,060)</u>	<u>(261)</u>
(Increase)/decrease in inventory	(353)	(276)
(Increase)/decrease in trade and other receivables	(283)	969
Increase/(decrease) in trade and other payables	668	(315)
Increase/(decrease) in deferred revenue	1,020	(141)
	<u>(8)</u>	<u>(24)</u>
Cash (outflow)/inflow generated from operations		
Investing activities		
Purchases of property, plant and equipment	(19)	–
Interest received	–	–
	<u>(19)</u>	<u>–</u>
Net cash used in investing activities		
Financing activities		
Interest paid	(111)	(60)
Repayment of borrowings	(126)	(338)
	<u>(237)</u>	<u>(398)</u>
Net cash (used in)/generated from financing activities		
Net (decrease)/increase in cash and cash equivalents	(264)	(422)
Cash and cash equivalents at beginning of year	552	614
Exchange loss on cash and cash equivalents	(140)	(98)
	<u>148</u>	<u>94</u>
Cash and cash equivalents at end of year		

Statement of Changes in Equity for 6 months ended June 2010

	<i>Share capital</i>	<i>Additional paid in capital</i>	<i>Foreign Exchange reserve</i>	<i>Retained loss</i>	<i>Total attributable to equity holders of parent</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Balance at 31 December 2009	2	132,505	(590)	(150,253)	(18,336)
Share based payment grant	–	10	–	–	10
Total comprehensive loss	–	–	(98)	(1,436)	(1,534)
Adjustment to reserves	–	–	–	25	25
Balance at 30 June 2010	<u>2</u>	<u>132,515</u>	<u>(688)</u>	<u>(151,664)</u>	<u>(19,835)</u>

PART IV

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

The following unaudited pro forma statement of net assets of the Enlarged Group following the Acquisition and Placing has been prepared for illustrative purposes only to provide information about the impact of the Acquisition and the Placing on Corero and due to its nature, it may not give a true reflection of the financial position of the Enlarged Group. It has been prepared on the basis that the Acquisition and the Placing were undertaken as at 30 June 2010 and on the basis set out in the notes on the following page:

	<i>Adjustments</i>						<i>Pro form net assets of the Enlarged Group</i>
	<i>Corero plc as at 30 June 2010 (Note 1) £000</i>	<i>Disposal of FM division (Note 2) £000</i>	<i>Placing and redemption of CULS (Note 3) £000</i>	<i>Top Layer as at 30 June 2010 (Note 4) £000</i>	<i>Acquisition and related costs (Note 5) £000</i>	<i>Placing (Note 6) £000</i>	
Assets							–
Non-current assets							–
Goodwill	1,677	(1,168)	–	–	13,763	–	14,272
Other intangible assets	1,123	(574)	–	1	–	–	550
Property, plant and equipment	59	(32)	–	106	–	–	133
Other receivables	–	–	–	87	–	–	87
	2,859	(1,774)	–	194	13,763	–	15,042
Current assets							
Inventory	–	–	–	387	–	–	387
Trade and other receivables	1,194	(159)	–	1,353	–	–	2,388
Cash and cash equivalents	621	–	6,383	61	(2,490)	1,790	6,365
	1,815	(159)	6,383	1,801	(2,490)	1,790	9,140
Liabilities							
Current liabilities							
Trade and other payables	(722)	–	–	(4,355)	2,866	–	(2,211)
Provisions	(4)	–	–	–	–	–	(4)
Deferred income	(1,500)	292	–	(2,573)	–	–	(3,781)
Loans and borrowings	–	–	–	(5,166)	1,463	–	(3,703)
Net current assets/ (liabilities)	(411)	133	6,383	(10,293)	1,839	1,790	(559)
Total assets less current liabilities	2,448	(1,641)	6,383	(10,099)	15,602	1,790	14,483
Non-current liabilities							
Deferred income	–	–	–	(1,355)	–	–	(1,355)
Loans and borrowings							
– Preference shares	–	–	–	(1,156)	1,156	–	–
Share warrants	–	–	–	(186)	186	–	–
Convertible 8 per cent. Unsecured loan stock 2015	(4,216)	–	4,216	–	–	–	–
Net assets/(liabilities)	(1,768)	(1,641)	10,599	(12,796)	16,944	1,790	13,128

Notes

The unaudited pro forma statement of net assets has been prepared on the following basis:

1. The net assets of Corero at 30 June 2010 have been extracted without material adjustment from the announcement of the interim results of Corero for the period ended 30 June 2010, issued on 20 September 2010. This report is available from the Company's website (www.corero.com) and in accordance with Rule 28 of the AIM Rules for Companies is incorporated into this document by reference.

Adjustments

All adjustments assume an exchange rate of 1.55/1 US\$/£.

2. The Financial Markets division of Corero was disposed of on 6 August 2010. The net asset adjustments relating to this disposal have been extracted without material adjustment from a pro forma consolidated interim statements of net assets as included within the announcement of Corero's interim results for the period ended 30 June 2010 on 20 September 2010.
3. The net funds of £6.38 million raised from the subscription and placing of new shares, along with the redemption of the Convertible Unsecured Loan Stock, both occurring as components of the August 2010 Transaction and at the time of the disposal of the Financial Markets division. The net asset adjustments relating to this disposal have been extracted without material adjustment from a pro forma consolidated interim statement of net assets as included within the announcement of Corero's interim results for the period ended 30 June 2010 on 20 September 2010.
4. The net assets of Top Layer as at 30 June 2010 have been extracted without material adjustment from the interim unaudited financial information of Top Layer as at 30 June 2010 as set out in Section C of Part III of this document.
5. Intangible assets have been adjusted to reflect an estimate of the capitalisation of goodwill which arises as a result of the Acquisition, assuming that this Acquisition took place on 30 June 2010, as illustrated below:

	£000
<i>Estimated consideration</i>	
Value of new Shares to be issued by Corero	4,147
Cash	2,490
Loan notes -\$5 million at 8 per cent.	3,226
	<hr/> 9,863
Net liabilities acquired	(3,900)
Pro forma goodwill	<hr/> 13,763

In accordance with the terms of the Merger Agreement, details of which are set out in paragraph 10.1.1 of Part V of this document, net liabilities acquired are stated after the cancellation of shareholder loans and the conversion of convertible preference shares, totaling in aggregate £8.9 million (US\$13.8 million) at 30 June 2010.

6. Gross proceeds from the Placing of £2,300,000, net of estimated costs relating to the Placing and the Acquisition of £510,000.
7. No account has been taken of any changes in the financial position of either Corero or Top layer, including trading performance, since 30 June 2010.

PART V

ADDITIONAL INFORMATION

1. RESPONSIBILITY

The Directors, whose names are set out on page 7, accept responsibility (both individually and collectively) for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. THE COMPANY

- 2.1 The Company was incorporated in England and Wales under the Companies Act 1985 on 14 November 1991 as a public limited company limited by shares, with the name Mondas plc and registration number 02662978.
- 2.2 The Company was admitted to trading on AIM on 9 October 2000.
- 2.3 The Company changed its name to Corero plc on 27 February 2007.
- 2.4 The liability of the Company's members is limited. The principal legislation under which the Company operates is the 2006 Act.
- 2.5 The registered office and head office of the Company is 169 High Street, Rickmansworth, Hertfordshire, WD3 1AY and will remain so on Admission. The telephone number of the Company is 01923 897333.
- 2.6 The Company's web address is www.corero.com.

3. ORGANISATIONAL STRUCTURE

- 3.1 As at the date of this document, the Company, which is the ultimate holding company of the Group, has the following significant subsidiaries:

<i>Subsidiary</i>	<i>Country of incorporation</i>	<i>Registered office</i>	<i>Field of activity</i>	<i>Proportion of share capital and voting power</i>
Corero Systems Limited	UK	169 High Street, Rickmansworth, Hertfordshire WD3 1AY	Software publishing and related services	100 per cent.

- 3.2 Following Admission, the Company, will have the following significant subsidiaries, in addition to the existing subsidiary set out above:

<i>Subsidiary</i>	<i>Country of incorporation</i>	<i>Registered office</i>	<i>Field of activity</i>	<i>Proportion of share capital and voting power</i>
Top Layer	US	1 Cabot Road, Hudson, Massachusetts 01749, US	Network security hardware and software solutions, and related services	100 per cent.
Top Layer Networks Ltd ¹	UK	c/o Assets Outsourcing Limited 34 Chapel Street Thatcham Berkshire RG18 4QL, UK	Network security hardware and software solutions, and related services	100 per cent.

¹ Top Layer Networks Ltd is a wholly owned subsidiary of Top Layer.

4. SHARE CAPITAL

4.1 The Company's shares are in registered form and are capable of transfer in both certificated form and uncertificated form. The register of members is maintained by Capita. The Company's ordinary share capital as at the date of this document, and as it will be on Admission, is as follows:

	<i>Ordinary Shares at the date of this document</i>		<i>Ordinary Shares on Admission¹</i>	
	<i>Number</i>	<i>Nominal Value</i>	<i>Number</i>	<i>Nominal Value</i>
Number of shares issued fully paid	31,963,434	£319,634.34	47,573,718	£475,737.18

¹ assuming that the Placing is fully subscribed (and excluding the Deferred Consideration Shares).

4.2 During the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009, the authorised share capital of the Company was varied only once. On 29 June 2009, the Company carried out a capital reorganisation. Immediately prior to the capital reorganisation, the authorised share capital was £12,000,000 divided into 120,000,000 ordinary shares of £0.10 each and, immediately thereafter, the authorised share capital was £11,999,999.80 divided into 745,821,970 ordinary shares of £0.01 each and 1,518,990 deferred shares of £2.99 each. On 19 May 2010, a resolution was approved at the Company's annual general meeting for the purposes of revoking any limit on the maximum amount of shares that may be allotted by the Company imposed by the amount of the Company's authorised share capital that was in force immediately before 1 October 2009.

4.3 During the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009 respectively and the period commencing 1 January 2010 and expiring on the date of this document the only changes in the issued share capital of the Company were as follows:

- (a) On 3 April 2007, Corero issued 8,720,952 ordinary shares of £0.10 each to satisfy the deferred consideration due to the shareholders of Blue Curve Limited under the acquisition agreement entered into on 16 January 2006.
- (b) On 20 April 2007, the Company granted options over (i) 288,992 ordinary shares of £0.10 each to Mark Robertson; and (ii) 263,163 ordinary shares of £0.10 each to Bernard Snowe.
- (c) On 29 September 2008, the Company granted options over 1,136,000 ordinary shares of £0.10 each to its employees.
- (d) On 29 June 2009:
 - each holding of 30 existing ordinary shares of £0.10 each was consolidated into and re-classified as one ordinary share of £3.00;
 - each ordinary share of £3.00 was subdivided and re-classified as one new ordinary share of £0.01 and one deferred share of £2.99; and
 - each of the authorised but unissued existing ordinary shares was sub-divided into ten ordinary shares of £0.01 each forming one class of shares with the issued ordinary shares.
- (e) On 6 August 2010, pursuant to the August 2010 Transaction, the Company allotted:
 - 18,000,000 Ordinary Shares in connection with a subscription at a price of £0.25.
 - 8,000,000 Ordinary Shares in connection with a placing at a price of £0.25; and
 - 4,444,444 Ordinary Shares at a conversion price of £0.45 per £1.00 nominal value of CULS in consideration for the release of the obligations and liabilities of the Company in respect of an aggregate principal amount of £2 million of CULS.

- (f) On 10 August 2010, the Company granted options over (i) 476,000 Ordinary Shares to Andrew Miller; (ii) 308,000 Ordinary Shares to Andre Stewart; (iii) 308,000 Ordinary Shares to Stephen Turner and (iv) 165,000 Ordinary Shares to Jens Montanana.

- 4.4 The number of ordinary shares of the Company in issue at the beginning and end of the financial year ended 31 December 2009 (the date to which the last accounts were made up) was as follows:

	<i>Year to 2009</i>
Ordinary shares of £0.10 each in issue at commencement of period	45,569,702
Ordinary Shares of £0.01 each in issue at end of period	1,518,990
Deferred shares of £2.99 each in issue at end of period	1,518,990

- 4.5 The Company does not have in issue any convertible securities, exchangeable securities or securities with warrants. There are no Ordinary Shares in the capital of the Company that do not represent capital.
- 4.6 No Ordinary Shares in the capital of the Company are held by or on behalf of the Company or by any Subsidiary.
- 4.7 Under the terms of the Acquisition, the Completion Consideration Shares will be issued on or around Completion of the Acquisition. The holders of the Ordinary Shares will be diluted by the issue of the Completion Consideration Shares and the Placing Shares. The effect of the issue of the Completion Consideration Shares and the Placing Shares will be that holders of Ordinary Shares at the date of this document will own 67.2 per cent. of the Enlarged Issued Share Capital following Admission (with the dilutive effect being less for those Shareholders, if any, acquiring Placing Shares).
- 4.8 Except for options granted under the Share Option Schemes, the obligation to issue and allot the Completion Consideration Shares, Deferred Consideration Shares, Top Layer Options, Corero Options and any obligation to allot the Placing Shares pursuant to the Placing, there are no acquisition rights and/or obligations in existence pursuant to which the Company would be required to issue further shares.
- 4.9 Save for options granted under the Share Option Schemes (details of which are set out in paragraph 5 of this Part V) and the obligation to issue and allot the Top Layer Options and the Corero Options, no capital of any member of the Group is under option or agreed conditionally or unconditionally to be put under option.

5. SHARE OPTION SCHEMES OVER ORDINARY SHARES IN THE COMPANY

The Company currently operates four schemes under which it grants options over its shares to directors and selected employees:

5.1 *EMI Option Scheme*

The EMI Option Scheme was adopted on 20 April 2001 and amended by the Board with the approval of HMRC on 15 September 2010 and 15 December 2010. The scheme has been approved by HMRC.

Under this scheme, options are outstanding over 525,476 Ordinary Shares at the date of this document. These options are held by employees and directors. As soon as reasonably practicable after the Company publishes its results for the year ended 31 December 2010, the Company will grant options over 40,000 and 125,000 Ordinary Shares in favour of Duncan Swallow and Bernard Snowe respectively. The Company will, therefore, immediately following Admission have options outstanding over 525,476 Ordinary Shares.

Eligibility

The remuneration committee can grant options to any employee of the Group provided that such person meets the eligibility requirements detailed in the scheme rules.

Performance conditions

The Remuneration Committee may, in its absolute discretion, impose performance criteria to be met before the share options are exercisable.

Exercise Price

Options are granted at a price determined by the Directors being not less than the nominal value of an Ordinary Share.

Grant of options

Options are granted by the Company and the option holder executing an option agreement. The maximum number of Ordinary Shares over which options may be granted shall be limited so that the market value of Ordinary Shares subject to unexercised options does not exceed £120,000. The Company will notify HMRC of the grant of options within 92 days of such grants. Options are granted on similar terms to substantially all of the employees, but, at the discretion of the Board, 25 per cent. are exercisable 12 months from the date of grant with the remainder vesting monthly over the following three years. However, depending upon the length of service at the date of the grant the options granted in September 2009 have differing vesting terms.

Length of service 1–2 years

Length of service greater than 2 years

<i>Calendar years from date of option agreement</i>	<i>Fraction of options vesting</i>	<i>Calendar years from date of option agreement</i>		<i>Fraction of options</i>
		<i>vesting</i>	<i>vesting</i>	
1	1/3	0 (date of grant)		2/5
2	1/3	1		1/5
3	1/3	2		1/5
		3		1/5

Future option grants will vest one third on the first anniversary of the option grant, one third on the second anniversary of the option grant and one third on the third anniversary of the option grant. Any Ordinary Shares acquired on exercise of these options will not be able to be sold for two years from the date of grant.

Exercise of options

Limited rights of exercise arise on a change of control, compromise, compulsory acquisition and in the event of a voluntary winding up of the Company. On a change of control by way of general offer, options may be exercised before or within 30 days or such longer period as may be specified by the Directors following the effective date of the change of control. If any person obtains control of the Company in pursuance of a compromise or arrangement sanctioned by the court under section 899 of the 2006 Act, options may be exercised from the date on which the compromise or arrangement is approved by the court and ending with the date on which it becomes effective. "Control" is construed in accordance with section 719 of the Income Tax (Earnings and Pensions) Act 2003. If any person becomes bound or entitled to acquire shares under sections 979 to 982 of the 2006 Act, options may be exercised within a period of 21 days from the date of the notice. If notice is given of a resolution for the voluntary winding up of the Company, options may be exercised within 30 days from the date of the resolution.

Adjustments

The number of Ordinary Shares over which an option is granted and the option price thereof shall be adjusted in such manner as the Directors shall determine following any capitalisation issue, rights issue, subdivision, consolidation or reduction of share capital of the Company or any other variation of share capital to the intent that (as nearly as may be) the total option price multiplied by the number of Ordinary Shares that is payable in respect of an option shall remain unchanged. No such adjustment shall be made without the prior approval of HMRC.

Lapsing of options

An option shall cease to be exercisable and lapse at midnight on the day before the date that is 10 years from its date of grant (or the expiry of such shorter period as may be determined by the Company at the time of grant). Unless otherwise specified in the option agreement entered into between the Company and the option holder, if an option holder ceases hold office or employment within the Group, his options shall lapse on the date of cessation of his office or employment.

Termination

The scheme shall terminate on 20 April 2011, being the tenth anniversary of its adoption. Termination shall be without prejudice to the subsisting rights of option holders.

5.2 Executive EMI Scheme

The Executive Enterprise Management Incentive Scheme was adopted on 10 August 2010 and amended by the Board on 15 December 2010. The scheme has been approved by HMRC.

The Company has options outstanding over 476,000 Ordinary Shares under this scheme at the date of this document. The Company will, immediately following Admission, have options outstanding over 476,000 Ordinary Shares.

Eligibility

The Board can grant options to any employee of the Group provided that such person meets the eligibility requirements detailed in the scheme rules.

Performance conditions

Options may, in the absolute discretion of the Board, be granted on terms that they may not be exercised until any exercise conditions have been satisfied. The options currently in issue under this Executive EMI Scheme are not subject to any exercise conditions.

Exercise Price

Options are granted with a fixed exercise price which may not be less than the nominal value of an Ordinary Share if the shares are to be subscribed.

Grant of options

The grant of options will be evidenced by a written agreement between the option holder and the Company. The Company will notify HMRC of the grant of options within 92 days of such grants.

Exercise of options

Unless otherwise specified in the option agreement entered into between the Company and the option holder, an option may only be exercised while the option holder is an employee or director of the Group, on or after the third anniversary of the date of grant, during the period for exercise (as set out in the scheme rules or as shall be determined by the Board in its absolute discretion) and if the exercise conditions, if any, have been met or waived. The options currently in issue under this Executive EMI Scheme have no vesting period or exercise conditions and any Ordinary Shares acquired on exercise of these options cannot be sold for two years from the date of grant, being 10 August 2010.

Limited rights of exercise arise on a takeover, compulsory acquisition, scheme of arrangement and in the event of a voluntary winding up. If an offer is made to Shareholders, the Board may notify option holders that they may exercise their options at any time (which shall be a date no later than the date the Board expects the takeover to occur). If any person becomes bound or entitled to acquire shares under sections 979 to 982 of the 2006 Act, options may be exercised within a period of 21 days from the date of the notice. If, under section 899 of the 2006 Act, the court sanctions a compromise or arrangement in relation to the Company, options may be exercised during the period commencing on

the date on which the compromise or arrangement is approved by the court and ending with the date on which it becomes effective. If notice is given of a resolution for the voluntary winding up of the Company, options may be exercised within 30 days from the date of the resolution.

Adjustments

The number of Ordinary Shares over which an option is granted and the option price thereof shall be adjusted in such manner as the Board shall determine following any capitalisation, rights issue, consolidation, subdivision, reduction or other variation of share capital of the Company. No such adjustment shall be made without the prior approval of HMRC.

Lapsing of options

An option shall cease to be exercisable on the tenth anniversary of the date of grant or such earlier date as may be specified by the Company at the date of grant. Unless otherwise specified in the option agreement entered into between the Company and the option holder, if an option holder ceases to be an employee or hold office within the Group, his options shall lapse on the date of cessation of his employment or office.

Termination

The scheme shall terminate on the tenth anniversary of its adoption. Termination shall be without prejudice to the subsisting rights of option holders.

5.3 *Unapproved Share Option Plan*

The 2010 Unapproved Share Option Plan was adopted on 10 August 2010 and amended on 15 December 2010.

The Company has options outstanding over 781,000 Ordinary Shares under this plan at the date of this document. These options are held by directors and management. The Company will, immediately following Admission, have options outstanding over 781,000 Ordinary Shares (excluding the Top Layer Options).

Eligibility

The Board can grant options to any employee of the Group.

Performance conditions

Options may be granted on terms that they may not be exercised until any exercise conditions have been satisfied. The options currently in issue under this Unapproved Share Option Plan have no vesting period or exercise conditions.

Exercise Price

Options are granted with a fixed exercise price which may not be less than the nominal value of an Ordinary Share if the shares are to be subscribed.

Grant of options

The grant of options will be evidenced by a deed of grant or, if so determined by the Board, an alternative form of contract.

Exercise of options

Unless otherwise specified in the deed of grant, an option may only be exercised while the option holder is an employee or director of the Group, on or after the third anniversary of the date of grant, during the period for exercise (as set out in the scheme rules or as shall be determined by the Board in their absolute discretion) and if the exercise conditions, if any, have been met or waived. The options currently in issue under the Unapproved Share Option Plan have no vesting period or exercise

conditions and any Ordinary Shares acquired on exercise of these options cannot be sold for two years from the date of grant being 10 August 2010.

Limited rights of exercise arise on a takeover, compulsory acquisition, scheme of arrangement and in the event of a voluntary winding up. If an offer is made to Shareholders, the Board may notify option holders that they may exercise their options at any time (which shall be a date no later than the date the Board expects the takeover to occur). If any person becomes bound or entitled to acquire shares under sections 979 to 982 of the 2006 Act, options may be exercised within a period of 21 days from the date of the notice. If, under section 899 of the 2006 Act, the court sanctions a compromise or arrangement in relation to the Company, options may be exercised during the period commencing on the date on which the compromise or arrangement is approved by the court and ending with the date on which it becomes effective. If notice is given of a resolution for the voluntary winding up of the Company, options may be exercised within 30 days from the date of the resolution. The Board shall, in its absolute discretion, determine whether options shall become exercisable in the event of a merger or demerger.

Adjustments

The number of Ordinary Shares over which an option is granted and the option price thereof shall be adjusted in such manner as the Board shall determine following any capitalisation, rights issue, consolidation, subdivision, reduction or other variation of share capital of the Company. Subject to certain exceptions set out in the rules, no such adjustment shall be made which would result in the exercise price for an option being less than its nominal value.

Lapsing of options

An option shall cease to be exercisable on the tenth anniversary of the date of grant or such earlier date as may be specified by the Company at the date of grant. Unless otherwise specified in the deed of grant, if an option holder ceases to be an employee or hold office within the Group, his options shall lapse on the date of cessation of his employment or office.

Termination

The scheme shall terminate on the tenth anniversary of its adoption. Termination shall be without prejudice to the subsisting rights of option holders.

Top Layer Options

As soon as practicable following the Merger Agreement becoming effective the Company will grant options over 675,000 Ordinary Shares to Top Layer management and employees (consisting of 450,000 to the Top Layer Management Team and 225,000 to other employees). Individual awards of such options shall be determined by the boards of directors of the Company and Top Layer. The options will vest one third on the first anniversary of the grant, one third on the second anniversary of the grant and one third on the third anniversary of the grant. No Ordinary Shares acquired pursuant to the options will be capable of being sold until two years after the anniversary of the option grant.

Non-Employee Plan

Attached to the Unapproved Share Option Plan is a separate and divisible sub plan for non-employees. Under the sub plan, the Board may grant options to non-employees and shall determine the dates and/or circumstances under which those options may be exercised and shall lapse.

5.4 *Deferred Payment Plan and Employee Share Ownership Trust*

The Deferred Payment Share Plan was adopted on 2 September 2010 and amended on 15 December 2010.

The Board may invite eligible employees (being directors (other than non-executive directors) and *bona fide* employees of any member of the Group) to participate in this plan through the grant of

options. This plan enables eligible employees to acquire Ordinary Shares in the Company at current market value but to defer payment until a later date. The Company has established an offshore employee share ownership trust (“ESOT”) to facilitate the acquisition of Ordinary Shares by employees under the plan and has appointed Ogier Employee Benefit Trustee Limited in Jersey as the trustee of the trust.

No awards have been made under this Deferred Payment Plan on the date of this document. The Board has resolved that as soon as reasonably practicable after the Company publishes its results for the year ended 31 December 2010, the Company will grant an option over 140,000 Ordinary Shares to Andrew Miller and will issue 140,000 Ordinary Shares to the ESOT in respect of such award.

6. MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY

6.1 *Memorandum of association*

On 19 May 2010, a resolution was approved at the Company’s annual general meeting for the purposes of deleting all the provisions of the Company’s memorandum of association which, by virtue of section 28 of 2006 Act, are to be treated as provisions of the Company’s articles of association.

6.2 *Articles of association*

The Articles which were adopted by a special resolution of the Company on 19 May 2010 include provisions to the following effect:

At the date of this document, the Company has in issue Ordinary Shares and Deferred Shares.

(a) *Deferred Shares*

The Deferred Shares (i) do not entitle the holders thereof to receive any dividend or other distribution; (ii) do not entitle the holders thereof to receive notice of, nor to attend, speak or vote at, any general meeting of the Company; (iii) entitle the holders, on a return of capital on a winding-up, only to the repayment of the amount paid up on their Deferred Shares after payment to the holders of Ordinary Shares of the capital paid up on each Ordinary Share and the further payment of £10,000,000 on each Ordinary Share; and (iv) do not entitle the holders thereof to any further participation in the capital, profits or assets of the Company. The Deferred Shares shall not be capable of transfer at any time other than with the prior written consent of the Directors. The Company may, at any time, transfer the Deferred Shares to any other person or buy back the Deferred Shares, for an aggregate payment of £0.01.

(b) *Ordinary Shares*

The following summary contains a description of the significant rights attached to the Ordinary Shares and does not purport to be complete or exhaustive.

(1) *Votes of members*

Subject to the provisions of the Companies Acts and to any special rights or restrictions as to voting attached to any shares or class of shares or otherwise provided by the Articles:

(i) on a show of hands:

(A) every member who is present in person shall have one vote;

(B) where a proxy is appointed by more than one member (provided that, where some only of those members by whom the proxy is appointed instruct the proxy to vote in a particular way, those members all instruct such proxy to vote in the same way on a resolution (either “for” or “against”)) such proxy shall be entitled to cast a second vote the other way

in relation to any discretionary vote(s) given to him by other members by whom such proxy is appointed; and

(C) every corporate representative present who has been duly authorised by a corporation shall have the same voting rights as the corporation would be entitled to; and

(ii) on a poll every member who is present in person or by duly appointed proxy or corporate representative shall have one vote for every share of which he is the holder or in respect of which his appointment of proxy or corporate representative has been made.

(2) *Restriction on rights of members where calls outstanding*

No member shall be entitled to receive any dividend or to be present and vote at any general meeting either personally or (save as proxy for another member) by proxy, or be reckoned in a quorum or to exercise any other privilege as a member unless and until he shall have paid all calls for the time being due and payable on every share held by him, whether alone or jointly with any other person, together with interest and expenses (if any).

(3) *Transfer of shares*

(i) Form of transfer

Each member may transfer all or any of his shares, in the case of certificated shares, by instrument of transfer in writing in any usual form or in any form approved by the Board, or, in the case of uncertificated shares, without a written instrument in accordance with the Uncertificated Securities Regulations 2001 (SI 2001/37555) (“Uncertificated Regulations”). Any written instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of such share until the name of the transferee is entered in the register of members of the Company in respect of it.

(ii) Right to refuse registration

The Board may in its absolute discretion refuse to register any transfer of a certificated share unless it is:

(A) in respect of a share which is fully paid up;

(B) in respect of a share on which the Company has no lien;

(C) in respect of only one class of shares;

(D) in favour of a single transferee or not more than four joint transferees;

(E) duly stamped (if so required); and

(F) delivered for registration to the registered office for the time being of the Company, or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a financial institution where a certificate has not been issued) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or if the transfer is executed by some other person on his behalf, the authority of that person to do so,

provided that such discretion may not be exercised in such a way as to prevent dealings in such shares from taking place on an open and proper basis.

(4) *Dividends*

(i) Declaration of dividends

Subject to the provisions of the Companies Acts and of the Articles, the Company may by ordinary resolution declare that out of profits available for distribution dividends be paid to members according to their respective rights and interests in the profits of the Company available for distribution. However, no dividend shall exceed the amount recommended by the Board.

(ii) Interim dividends

Subject to the provisions of the Companies Acts and of the Articles, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appear to the Board to be justified by the profits of the Company available for distribution and the position of the Company. If at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends on shares which rank after shares conferring preferential rights with regard to dividend as well as on shares conferring preferential rights unless at the time of payment any preferential dividend is in arrears. Provided that the Board acts in good faith it shall not incur any liability to the holders of shares conferring preferential rights for any loss that they may suffer in consequence of the declaration of, or by the lawful payment of, any interim dividend on any shares ranking after those with preferential rights.

(iii) Accrual of dividends

Except as otherwise provided by the Articles and by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid. Subject as aforesaid, all dividends shall be apportioned and paid *pro rata* according to the amounts paid up or credited as paid up on the shares during any portion or portions of the period in respect of which the dividend is paid but if any share is issued on terms providing that it shall rank for dividend as from a particular date or be entitled to dividends declared after a particular date it shall rank for or be entitled to dividends accordingly.

(iv) Dividends not to bear interest

Unless otherwise provided by the rights attached to the share no dividend or other moneys payable by the Company or in respect of a share shall bear interest as against the Company.

(v) Payment of dividends

All dividends and interest shall be paid (subject to any lien of the Company) to those members whose names shall be on the register at the date at which such dividend shall be declared or at the date at which such interest shall be payable respectively, or at such other date as the Company by ordinary resolution or the Board may determine, notwithstanding any subsequent transfer or transmission of shares.

(vi) Waiver of dividends

The waiver in whole or in part of any dividend on any share by any document (whether or not under seal) shall be effective only if such document is signed by

the member (or the person entitled to the share in consequence of the death, bankruptcy or mental disorder of the holder or otherwise by operation of law) and delivered to the Company and only if or to the extent that the same is accepted as such or acted upon by the Company.

(vii) Unclaimed dividends

All dividends, interest or other sums payable and unclaimed for 12 months after having become payable may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for a period of 12 years after having become due for payment shall (if the Board so resolves) be forfeited and shall revert to the Company.

(viii) Distribution *in specie*

The Company in general meeting may, on the recommendation of the Board, by ordinary resolution direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets, and in particular, of fully paid up shares or debentures of any other company or in any one or more of such ways. Where any difficulty arises in regard to such distribution the Board may settle it as it thinks fit. In particular, subject to the provisions of the Companies Acts, the Board may:

- (A) issue fractional certificates or authorise any person to sell and transfer any fractions or disregard fractions altogether;
- (B) fix the value for distribution of such assets or any part of them and determine that cash payments may be made to any members on the footing of the value so fixed, in order to adjust the rights of members; and
- (C) vest any such assets in trustees on trust for the persons entitled to the dividend.

(5) *Capitalisation of reserves*

The Board may with the authority of an ordinary resolution of the Company:

- (i) subject as provided in this article, resolve to capitalise any profits of the Company not required for paying any preferential dividend (whether or not they are available for distribution) or any sum standing to the credit of any reserve or fund of the Company which is available for distribution or standing to the credit of share premium account or capital redemption reserve or other undistributable reserve;
- (ii) appropriate the sum resolved to be capitalised on the date specified in the resolution to the holders of Ordinary Shares in proportion to the nominal amount of the shares (whether or not fully paid) held by them respectively which would entitle them to participate in a distribution of that sum if the shares were fully paid and the sum was then distributable and was distributed by way of dividend, and apply such sum on their behalf in or towards paying up the amount, if any, for the time being unpaid on any share held by them respectively and/or in paying up in full unissued shares or debentures of the Company of a nominal amount equal to that sum and allot the shares or debentures credited as fully paid to those holders of Ordinary Shares or as they may direct in those proportions provided that:
 - (A) the share premium account, the capital redemption reserve, any other undistributable reserve and any profits which are not available for

distribution may only be applied in paying up unissued shares to be allotted to holders of Ordinary Shares credited as fully paid; and

- (B) in a case where any sum is applied in paying amounts for the time being unpaid on any shares of the Company or in paying up in full debentures of the Company, the amount of the net assets of the Company at that time is not less than the aggregate of the called up share capital of the Company and its undistributable reserves as shown in the latest audited accounts of the Company or such other accounts as may be relevant and would not be reduced below that aggregate by the payment of it;
- (iii) resolve that any shares so allotted to any member in respect of a holding by him of any partly paid shares shall, so long as such shares remain partly paid, rank for dividends only to the extent that such partly paid shares rank for dividends;
- (iv) make such provision by the issue of fractional certificates (or by ignoring fractions or by accruing the benefit of such fractions to the Company rather than to the holders of Ordinary Shares concerned) or by payment in cash or otherwise as it thinks fit in the case of shares or debentures becoming distributable in fractions; and
- (v) generally do all acts and things required to give effect to such resolution.

The Directors may appoint any person to sign any contract with the Company on behalf of those who are entitled to shares under the resolution.

(c) *Share capital: other provisions*

(i) Variation of Rights

Subject to the provisions of the Companies Acts, if at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any share or class of shares in the Company (and notwithstanding that the Company may be or be about to be in liquidation) may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with:

- (A) the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class; or
- (B) with the sanction of a special resolution passed at a separate general meeting of the holders of shares of the class duly convened and held as provided in the Articles (but not otherwise).

The foregoing provisions shall apply also to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated formed a separate class the separate rights of which are to be varied.

(ii) Class meetings

Save as provided in the Companies Acts, all the provisions in the Articles as to general meetings *mutatis mutandis* apply to every meeting of the holders of any class of shares, save that in the case of a meeting held in connection with the variation or abrogation of the rights attached to the shares of the class:

- (A) save as is mentioned in paragraph (D) below, the quorum at every such meeting shall be not less than two persons present holding or representing by proxy at least one-third in nominal value of the issued shares of the class in question (excluding any shares of that class held as treasury shares);

- (B) every holder of shares of the class in question present in person or by proxy may demand a poll;
- (C) each such holder shall on a poll be entitled to one vote for every share of the class held by him;
- (D) if at any adjourned meeting of such holders, such quorum as aforesaid is not present, not less than one person holding shares of the class who is present in person or by proxy shall be a quorum; and
- (E) where a person is present by proxy or proxies, he is treated as holding only the shares in respect of which those proxies are authorised to exercise voting rights.

(iii) Deemed variation

Subject to the terms on which any shares may be issued, the rights or privileges attached to any class of shares shall be deemed to be varied or abrogated by the reduction of the capital paid up on such shares or by the allotment of further shares ranking in priority for the payment of a dividend or in respect of capital or howsoever or which confer on the holders voting rights more favourable than those conferred by such first mentioned shares but shall not be deemed to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Companies Acts and the Articles.

(d) *Forfeiture of shares*

(i) Notice if call not paid

If any member fails to pay the whole of any call or any instalment of any call on or before the day appointed for payment the Board may at any time serve a notice in writing on such member, or on any person entitled to the shares by transmission, requiring payment, on a date not less than 14 clear days from the date of the notice, of the amount unpaid and any interest which may have accrued on it and any reasonable costs, charges and expenses incurred by the Company by reason of such non-payment.

(ii) Forfeiture for non-compliance

If the notice referred to in the above paragraph d(i) (*Notice if call not paid*) is not complied with, any share in respect of which it was given may, at any time after the date appointed for payment pursuant to the notice, be forfeited by a resolution of the Board to that effect. Such forfeiture shall include all dividends declared or other moneys payable in respect of the forfeited shares and not paid before the forfeiture, and shall be deemed to occur at the time of the passing of the said resolution of the Board.

(iii) Notice after forfeiture

When any share has been forfeited notice of the forfeiture shall be served on the person who was before forfeiture the holder of the share or the person entitled to such share by transmission (as the case may be). An entry of such notice having been given and of the forfeiture with the date of it shall forthwith be made in the register of members of the Company in respect of such share together with a note that dealings are not permitted in the share. However, no forfeiture shall be invalidated by any omission to give such notice or to make such entry as aforesaid.

(iv) Forfeiture may be annulled

The Board may at any time before any share so forfeited has been cancelled or sold, re-allotted or otherwise disposed of annul the forfeiture, on the terms that payment shall

be made of all calls and interest due thereon and all expenses incurred in respect of the share and on such further terms (if any) as the Board shall see fit.

(v) Surrender

The Board may accept a surrender of any share liable to be forfeited under the Articles upon such terms and conditions as may be agreed and, subject to any such terms and conditions, a surrendered share shall be treated as if it had been forfeited. In such case, references in the Articles to forfeiture shall include surrender.

(vi) Disposal of forfeited shares

Every share which shall be forfeited shall thereupon become the property of the Company. The Company shall not exercise any voting rights in respect of such a share. Subject to the provisions of the Companies Acts, any such share may be sold, re-allotted or otherwise disposed of either to the person who was before forfeiture its holder or entitled to it or to any other person on such terms and in such manner as the Board shall determine and, in the case of re-allotment, whether with or without all or any part of the amount previously paid up on the share being treated as so paid up. The Board may, for the purposes of the disposal in the case of certificated shares, authorise some person to transfer the share in question and may enter the name of the transferee in respect of the transferred share in the register of members of the Company notwithstanding the absence of any share certificate being lodged in respect of it and may issue a new certificate to the transferee in respect of certificated shares transferred to it. An instrument of transfer executed by that person shall be as effective as if it had been executed by the holder of or the person entitled by transmission to the share. In the case of uncertificated shares the Board may exercise any power conferred on it by the Articles to effect a transfer of the shares and the Company may, if the Board considers it just and equitable to do so, receive the consideration (if any) given for the share on its disposal.

(vii) Effect of forfeiture

A member whose shares have been forfeited shall cease to be a member in respect of the shares forfeited and shall in the case of a certificated share surrender to the Company for cancellation the certificate for such shares. He shall nevertheless be liable (unless payment is waived in whole or in part by the Directors) to pay to the Company all calls made and not paid on such shares at the time of forfeiture, and interest on them from the date of the forfeiture to the date of payment at the rate at which interest was payable on those amounts before the forfeiture or, if no interest was so payable, at such rate not exceeding 15 per cent. per annum as the Board may determine, in the same manner in all respects as if the shares had not been forfeited, and to satisfy all (if any) claims, demands and liabilities which the Company might have enforced in respect of the shares at the time of forfeiture without any reduction or allowance for the value of the shares at the time of forfeiture or for any consideration received on the disposal.

(viii) Extinction of claims

The forfeiture of a share shall include all dividends and other payments or distributions declared in respect of the forfeited shares and not paid or distributed before forfeiture.

(ix) Evidence of forfeiture

A statutory declaration by a Director or the secretary that a share has been forfeited in pursuance of the Articles and stating the date on which it was forfeited shall as against all persons claiming to be entitled to the share adversely to its forfeiture, be conclusive evidence of the facts stated in it. The declaration, together with the receipt of the Company for the consideration (if any) given for the share on its sale or disposition and a certificate for the share delivered to the person to whom it is sold or disposed of, shall

(subject if necessary to the execution of an instrument of transfer) constitute a good title to the share. Subject to the execution of any necessary transfer in the case of a certificated share, such person shall be registered as the holder of the share and shall be discharged from all calls made prior to such sale or disposition and shall not be bound to see to the application of the purchase money or other consideration (if any) nor shall his title to the share be affected by any act, omission or irregularity relating to or connected with the proceedings in reference to the forfeiture or disposal of the share. Such person shall not (except by express agreement with the Company) become entitled to any dividend which might have accrued on the share before the completion of the sale or disposition thereof.

(e) *Directors*

Unless and until otherwise determined by the Company by ordinary resolution the number of Directors (other than any alternate Directors) shall be not less than two or more than 10.

(i) Share qualification

A Director shall not be required to hold any shares of the Company.

(ii) Directors' fees

The Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine (not exceeding £250,000 per annum in aggregate or such other sum as the Company in general meeting shall from time to time determine). Such sum (unless otherwise directed by the resolution of the Company by which it is voted) shall be divided among the Directors in such proportions and in such manner as the Board may determine or in default of such determination, equally (except that in such event any Director holding office for less than the whole of the relevant period in respect of which the fees are paid shall only rank in such division in proportion to the time during such period for which he holds office). Such fees shall be distinct from any salary, remuneration or other amounts payable to a Director and permitted by the Articles and shall accrue from day to day.

(iii) Additional remuneration

If, by arrangement with the Board, any Director shall perform or render any special duties or services outside his ordinary duties as a Director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration (whether by way of a lump sum or by way of salary, commission, participation in profits or otherwise) as the Board may from time to time determine.

(iv) Directors' expenses

Each Director shall be entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in or about the performance of his duties as Director, including any expenses incurred in attending meetings of the Board or any committee of the Board or general meetings or separate meetings of the holders of any class of shares or of debentures of the Company.

(v) Remuneration of executive Directors

The salary or remuneration of any Director appointed to hold any employment or executive office may be either a fixed sum of money or may altogether or in part be governed by business done or profits made or otherwise determined by the Board and may be in addition to or in lieu of any fee payable to him for his services as Director pursuant to the Articles.

(vi) Directors' pensions and other benefits

The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities (whether by insurance or otherwise) for or to institute and maintain any institution, association, society, club, trust, other establishment or profit sharing, share incentive, share purchase or employees' share scheme calculated to advance the interests of the Company or to benefit any person who is or has at any time been a Director of the Company or any company which is a subsidiary company of or allied to or associated with the Company or any such subsidiary or any predecessor in business of the Company or of any such subsidiary and for any member of his family (including a spouse or former spouse or civil partner or former civil partner) and any person who is or was dependent on him. For such purpose the Board may establish, maintain, subscribe and contribute to any scheme, institution, association, club, trust or fund and pay premiums and, subject to the provisions of the Companies Acts, lend money or make payments to, guarantee or give an indemnity in respect of, or give any financial or other assistance in connection with, any of the aforesaid matters or bodies. The Board may procure any of such matters to be done by the Company either alone or in conjunction with any other person. Any Director or former Director shall be entitled to receive and retain for his own benefit any pension or other benefit permitted under the Articles and shall not be obliged to account for it to the Company.

(vii) Disclosure of interests to the Board

- (A) A Director must declare the nature and extent of his interest to the other Directors in any matter of situation in which the Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (including, without limitation, in relation to the exploitation of any property, information or opportunity, whether or not the Company could take advantage of it).
- (B) If a Director is in any way, directly or indirectly, interested in a proposed transaction or arrangement with the Company, he must declare the nature and extent of that interest to the other Directors.
- (C) If a Director is in any way, directly or indirectly, interested in a transaction or arrangement which has already been entered into by the Company, he must declare the nature and extent of his interest to the other Directors.

The declaration of interest must (in the case of paragraph (C) above) and may, but need not (in the case of (A) or (B) above), be made (i) at a meeting of the Directors, or (ii) by notice to the Directors in accordance with (a) Section 184, 2006 Act (*Notice in writing*); or (b) Section 185, 2006 Act (*General notice*).

No declaration is required in relation to an interest of which the Director is not aware, or where the Director is not aware of the transaction or arrangement in question. For this purpose, a Director is treated as being aware of matters of which he ought reasonably to be aware.

(viii) Cessation of position on ceasing to be a Director

A Director appointed to the office of Chairman, Deputy Chairman, Managing Director, Chief Executive or any other executive office shall automatically and immediately cease to hold that office if he ceases to hold the office of Director for any cause, but he shall not (unless any agreement between him and the Company shall otherwise provide) cease to hold his office as a Director by reason only of his ceasing to be Chairman, Deputy Chairman, Managing Director, Chief Executive of the Company or to hold any other such executive office, as the case may be.

(f) *Appointment and retirement of directors*

(i) Power of Company to appoint directors

Subject to the provisions of the Articles and to the Companies Acts, the Company may by ordinary resolution appoint a person who is willing to act to be a Director, either to fill a vacancy, or as an addition to the existing Board, and may also determine the rotation in which any additional Directors are to retire, but the total number of Directors shall not exceed the maximum number (if any) for the time being fixed in accordance with the Articles.

(ii) Power of Board to appoint directors

Without prejudice to the power of the Company to appoint any person to be a Director, the Board shall, subject to the provisions of the Companies Acts, have power at any time to appoint any person who is willing to act as a Director, either to fill a vacancy or as an addition to the existing Board, but the total number of Directors shall not exceed any maximum number fixed in accordance with the Articles. Any Director so appointed shall hold office only until the annual general meeting of the Company next following such appointment and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors who are to retire by rotation at that meeting.

(iii) Retirement by rotation

(A) Any Director appointed by the Board shall retire at the annual general meeting of the Company next following his appointment.

(B) At any annual general meeting of the Company, any Director who has not been appointed or re-appointed at either two previous annual general meetings of the Company shall retire.

(C) If, at any annual general meeting of the Company, the number of Directors required to retire pursuant to paragraph (B) above is less than one third of the total number of Directors calculated in accordance with paragraph (D) below (rounded down to the nearest whole number (the "Relevant Proportion"), such number of additional Directors ("Additional Directors") as is required (when taken together with the Directors required to retire pursuant to paragraph (D) of this article) to constitute the Relevant Proportion shall retire at such annual general meeting of the Company. Subject to the Articles, the Additional Directors to retire shall be those who have been the longest to have held office since their appointment or re-appointment but, as between persons who were appointed or were last appointed or re-appointed Directors on the same day, those to retire shall (unless otherwise agreed between them) be determined by lot.

(D) In calculating the "total number of Directors" for the purposes of determining which Directors are to retire by rotation, any Director who:

(i) wishes to retire and not be re-elected; or

(ii) has been appointed to the Board by resolution of the Board following the last general meeting shall be disregarded.

(iv) Re-election of retiring directors

A Director who retires at an annual general meeting of the Company (whether by rotation or otherwise) may, if willing to act, be re-appointed. If the Company, at the meeting at which a Director retires by rotation, does not fill the vacancy created by his retirement, the retiring Director shall, if willing to act, be deemed to have been re-appointed unless at the meeting it is expressly resolved not to fill the vacancy or unless a resolution for the re-appointment of the Director is put to the meeting and lost

or unless the retiring Director has given notice in writing to the Company that he is unwilling to be re-elected or unless the default in filling the vacancy is due to the moving of a resolution in contravention of the Articles.

(v) Timing of retirement

The retirement of any Director retiring at an annual general meeting in accordance with the Articles shall not have effect until the conclusion of the meeting except where a resolution is passed to elect some other person in the place of the retiring Director or a resolution for his re-election is put to the meeting and lost in which case the retirement shall take effect at the time of election of his replacement or the time of the losing of that resolution as the case may be. A retiring Director who is re-elected or deemed to have been re-elected will continue in office without a break.

(vi) Vacation of office by Director

Without prejudice to any provisions for retirement contained in the Articles, the office of a Director shall be vacated if:

- (A) he resigns by notice in writing delivered to the company secretary at the registered office of the Company or tendered at a Board meeting (in which event he shall vacate that office on the service of that notice on the Company or at such later time as is specified in the notice) or he offers in writing to resign from his office and the Directors resolve to accept such offer; or
- (B) he ceases to be a Director by virtue of any provision of the Companies Acts, is removed from office pursuant to the Articles or becomes prohibited by law from being a Director; or
- (C) he becomes bankrupt, has an interim receiving order made against him, makes any arrangement or compounds with his creditors generally or applies to the Court for an interim order under Section 253, Insolvency Act 1986 in connection with a voluntary arrangement under that Act; or
- (D) by reason of that person's mental health, a court makes an order which wholly or partly prevents that person from personally exercising any powers or rights which that person would otherwise have; or
- (E) a registered medical practitioner who is treating that person gives a written opinion to the Company stating that that person has become physically or mentally incapable of acting as a director and may remain so far more than three months; or
- (F) he shall be absent, without the permission of the Board, from Board meetings for six consecutive months (whether or not an alternate Director appointed by him attends) and the Board resolves that his office be vacated; or
- (G) he is requested to resign by notice in writing addressed to him at his address as shown in the register of Directors and signed by all the other Directors (without prejudice to any claim for damages which he may have for breach of any contract between him and the Company); or
- (H) he is convicted of an indictable offence and the Directors shall resolve that it is undesirable in the interests of the Company that he remains a Director of the Company; or
- (I) the conduct of that Director (whether or not concerning the affairs of the Company) is the subject of an investigation by an inspector appointed by the Secretary of State or by the Serious Fraud Office (or any successor body or body

equivalent in any foreign jurisdiction thereto) and the Board shall resolve that it is undesirable that he remains a Director; or

(J) notice is given to terminate his contract of employment or engagement with the Company where he is in breach of such contract; or

(K) he has been disqualified from acting as a director.

(vii) Removal by ordinary resolution

The Company may by ordinary resolution (of which special notice has been given in accordance with Section 312 of the 2006 Act) remove any Director before the expiration of his period of office notwithstanding anything in the Articles or in any agreement between the Company and such Director and, without prejudice to any claim for damages which he may have for breach of any contract of service between him and the Company, may (subject to these Articles and the provisions of the Companies Acts) by ordinary resolution (of which special notice has been given in accordance with Section 312 of the 2006 Act) appoint another person at that meeting who is willing to act to be a Director in his place. Any person so appointed shall be treated, for the purposes of determining the time at which he or any other Director is to retire by rotation, as if he had become a Director on the day on which the person in whose place he is appointed was last appointed or re-appointed a Director. In default of such appointment the vacancy arising upon the removal of a Director from office may be filled by resolution of the Board.

(viii) Resolution as to vacancy conclusive

A resolution of the Board declaring a Director to have vacated office under the terms of paragraph (vi) above (*Vacation of office by Director*) shall be conclusive as to the fact and grounds of vacation stated in the resolution.

(ix) Meetings and proceedings of directors

Subject to the provisions of the Articles and the Companies Acts, the Board may meet for the despatch of business, adjourn and otherwise regulate its proceedings as it thinks fit. One Director may and the company secretary at the request of a Director shall summon a Board meeting at any time. Notice of a Board meeting shall be deemed to be properly given to a Director if it is given to him personally or by word of mouth or sent in writing (whether in hard copy form or electronic form) to him at his last known address or any other address (including electronic address) given by him to the Company for this purpose.

(g) *Borrowing powers*

Subject as provided by the Articles the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether as primary or collateral security for any debt, liability or obligation of the Company or any other party. The Directors shall so restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries as to secure (so far as by such exercise they can secure) that the aggregate amount for the time being remaining undischarged of all sums borrowed by the Company and its subsidiaries (exclusive of sums borrowed from or owing to the Company or any such subsidiary) shall not at any time exceed an amount equal to three times the share capital and consolidated reserves of the Company (as defined in article 107 of the Articles) without the previous sanction of an ordinary resolution of the Company in general meeting.

(h) *Shareholder meetings*

Subject to the provisions of the Companies Acts, annual general meetings of the Company shall be held at such time and place as the Board may determine. An annual general meeting must be convened, unless all shareholders entitled to attend and vote agree to short notice, on giving 21 clear days' notice in writing to the members of the Company.

The Board may convene a general meeting whenever it thinks fit. A general meeting must be convened, unless a majority in number of the members having a right to attend and vote at the meeting (being a majority who hold together not less than 95 per cent. in nominal value of the shares giving that right) agree to short notice, on giving 14 clear days' notice in writing to the members of the Company.

(i) *Notification of major holdings of Ordinary Shares*

Section 793 of the 2006 Act is incorporated into the Articles and applies between the Company and each member. The Company can give notice to any person with an interest in the Company's shares requiring them to confirm their shareholding in the Company.

Whilst disclosure of shareholdings is not a requirement of the Company's Articles, chapter 5 of the Disclosure and Transparency Rules makes provision regarding notification of certain shareholdings and holdings of financial instruments. Where a person holds voting rights in the Company as shareholder or through direct or indirect holdings of financial instruments then the person has an obligation to make a notification to the FSA and the Company of the percentage of voting rights held where that percentage reaches, exceeds or falls below 3 per cent. or any whole percentage figure above 3 per cent. The requirement to notify also applies where a person is an indirect shareholder and can acquire, dispose of or exercise voting rights in certain cases.

7. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

7.1 The interests of the Directors, their immediate family members and persons connected with them in the share capital of the Company, (excluding any options in respect of such capital) the existence of which is known to or could with reasonable diligence be ascertained by that Director, whether or not held through another party, as at the date of this document, and as they are expected to be immediately following Admission, are as follows:

<i>Name</i>	<i>At the date of this document</i>		<i>On Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Shares</i>	<i>Number of Ordinary Shares immediately following Admission</i>	<i>Percentage of Enlarged Ordinary Share Capital</i>
Jens Montanana*	10,400,000	32.54%	12,828,571	26.97%
Andrew Miller	600,000	1.88%	600,000	1.3%
Bernard Snowe	1,373	0.00%	1,373	0.00%
Richard Last	7,333	0.02%	221,619	0.47%
Total	<u>11,008,706</u>	<u>34.44%</u>	<u>13,651,563</u>	<u>28.70%</u>

* of which 8,971,429 Ordinary Shares are held in the name of JPM International Limited, which is wholly owned by Jens Montanana.

- 7.2 The following options over Ordinary Shares have been or will on Admission (or shortly thereafter) be granted to the Directors:

<i>Name of Director</i>	<i>Number of Ordinary Shares subject to options as at the date of this document</i>	<i>Number of Ordinary Shares subject to options immediately following Admission</i>	<i>Date from which exercisable</i>	<i>Expiry Date</i>	<i>Exercise price (pence)</i>
EMI Option Scheme					
Bernard Snowe	1,333	1,333	27 April 2002	26 April 2011	975
	250	250	15 October 2002	14 October 2011	525
	250	250	14 December 2002	14 December 2011	765
	500	500	30 January 2003	29 January 2012	825
	1,667	1,667	7 February 2006	6 February 2015	495
	4,861	4,861	27 April 2007	26 April 2016	555
Unapproved EMI Scheme					
Bernard Snowe	8,772	8,772	28 April 2008	19 April 2017	555
Unapproved Share Option Plan					
Jens Montanana ¹	165,000	165,000	10 August 2010	10 August 2020	25
Executive EMI Scheme					
Andrew Miller	476,000	476,000	10 August 2010	10 August 2020	25

¹ under the sub plan of the Unapproved Share Option Plan for non-employees described in paragraph 5.3 of this Part VI.

- 7.3 Of the 1,306,476 share options in issue, 658,633 are held by the Directors as detailed in the table above and the remaining 647,843 are held by employees of the Group.
- 7.4 Save as described in paragraphs 7.1 and 7.2 of this Part V, none of the Directors (or any member of their respective families, nor any person connected with the Directors within the meaning of sections 252 to 255 of the 2006 Act) has any interest, beneficial or non-beneficial, in the share capital of the Company.
- 7.5 Other than in relation to the Group and the Top Layer Group, the Directors currently hold, and have during the last five years immediately preceding the date of this document held, the following directorships or partnerships:

<i>Director</i>	<i>Current</i>	<i>Past</i>
Jens Montanana	ActiveSymbols, Inc Analysys Consulting Limited Analysys Limited Analysys Mason Group Limited Analysys Research Limited Catalyst IT Partners Limited Comptec Resources, Inc Comstor Belgium NV Comstor Group Limited Comstor Limited Comstor Malaysia SDN. BHD Comstor Pte Limited Comstor Sweden AB Datatec International Holdings Limited Datatec International Limited	Versatile Systems, Inc.

<i>Director</i>	<i>Current</i>	<i>Past</i>
Jens Montanana (continued)	Datatec Limited Equire Inc. Hawke Systems Limited Intact Integrated Services Limited LAN Systems (Pty) Limited LAN Systems Ltd Logicalis Computing Solutions Limited Logicalis Deutschland GmbH Logicalis Group Limited Logicalis Group Services Limited Logicalis Leasing, Limited Logicalis Network Solutions Limited Logicalis Networks GmbH Logicalis US Holdings, Inc Logicalis, Inc. Promon Logicalis Latin America Limited Mason Communications (Ireland) Limited Mason Communications Limited Mason Group Limited On Line Distribution Limited RangeGate (Proprietary) Limited Satelcom Limited Soft Net S.A. (Argentina) Softnet, Inc. S.A. Softnet Uruguay S.A Softnet-Logical Comercial Importadora, Exportadora e de Servicios Ltda Softnet-Logical Paraguay S.A T.B.C Group Limited TBC Limited Westcon (UK) Limited Westcon AME (Proprietary) Limited Westcon Brazil Ltda Westcon Canada Systems (WCSI), Inc Westcon France SAS Westcon GmbH Westcon Group B.V. Westcon Group European Holdings Limited Westcon Group European Operations Limited Westcon Group North America Inc Westcon Group, Inc. X-Net Cuyo S.A.	

<i>Director</i>	<i>Current</i>	<i>Past</i>
Andrew Miller		Active Symbols, Inc. CompuTech Resources Inc. Infrastructure Applications Limited Logicalis Computing Solutions Finance Limited Logicalis Computing Solutions Limited Logicalis Group Limited Logicalis Limited Logicalis UK Limited Logicalis Uruguay SA Logicalis US Holdings, Inc. Logicalis, Inc. Promon Logicalis Latin America Limited Satelcom Limited TBC Group Limited TBC Limited
Bernard Snowe		Eclipse Learner Systems Limited Mondas Systems Limited Mondas Information Technology Limited Corero Software Limited Corero Group Limited Corero Dormant One Limited Corero Dormant Two Limited Corero Dormant Three Limited Biotrace International plc Quillion Limited
Richard Last	Lynx Group Limited Lynx Holdings Limited Lynx Limited Switch Networks Limited APD Communications Limited APD S-Com Limited APD –Aspire Limited Lynx IT Communications Limited FS (UK) Limited Lynxserv Limited Orsted Limited Signal Limited APD Mobile Data British Smaller Companies VCT2 plc CSE Global (UK) Limited Documetric Limited Parseq plc Patsystems plc Arcontech Group Plc Waste Management Systems Limited Lighthouse Group plc GapAid Limited	British Smaller Companies VCT plc Overseas 110 Limited Lynx Overseas Investments Limited Lynx Financial Systems Pty Limited Sphinx Group Limited Sphinx 110 Limited Sphinx CST Limited Sphinx CST Networks Limited Sphinx Professional Services Limited Sphinx CST (Ireland) Limited Transient 110 (no 2) Limited MMI Automotive Limited Distal Holdings Limited Xpertise Group plc Xpertise Training Limited Power Education Limited Financial Payments Systems Limited Transient 110 Limited Lynx Computer Services Lynx Technology Holdings Limited Lynx Technology Limited Quantix Holdings Limited Quantix Limited Lynx Software Systems Inc British Smaller Technology Companies VCT plc

- 7.6 Save as disclosed in paragraph 7.5 above, none of the Directors is or has been a director or partner in partnerships at any time in the period of five years immediately preceding the date of this document.
- 7.7 In 2000, Jens Montanana and a former colleague (the "Individuals") were investigated by the Financial Services Board in South Africa in relation to allegations of the passing of inside information in relation to Datatec Limited ("Datatec"). The allegations were made following a meeting by the individuals with an investment analyst where, in response to a direct question from the analyst, they indicated that Datatec would not meet certain analyst forecasts for the financial year ended 31 March 2000. This, in turn, caused speculation in the market and Datatec's share price to fall. After an investigation by the Financial Services Board, no formal charges were brought against the Individuals and the Individuals entered into a settlement with the Financial Services Board and paid a settlement of ZAR 1 million without admission of guilt or liability, which settlement was reimbursed by Datatec's directors' and officers' liability insurance policies. In agreeing to the settlement, the Financial Services Board took into consideration that the individuals did not themselves benefit from the disclosure, they had no incentive or improper motive to release the information, they did not sell any shares in Datatec on the relevant day and they themselves suffered significant personal losses as a result of the subsequent decline in Datatec's share price.
- 7.8 Jens Montanana was a director of Vida Research International Limited which was placed into voluntary liquidation on 4 June 2004. There were no secured creditors or preferential claims other than a preferential claim for \$3,394 from The Redundancy Payments Office in respect of the former employees of the company.
- 7.9 Except as disclosed above, none of the Directors has:
- (a) any unspent convictions in relation to indictable offences;
 - (b) any bankruptcy order made against him, nor has he entered into any individual voluntary arrangements;
 - (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration or been subject to a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
 - (d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
 - (e) been the owner of any assets or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership; or
 - (f) been publicly criticised by any statutory or regulatory authority, including recognised professional bodies, or been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.
- 7.10 There are no outstanding loans granted by the Company to any of the Directors or granted by any Director to the Company nor has any guarantee been provided by the Company for their benefit.
- 7.11 No Director nor any member of a Director's family (which, in relation to this paragraph 7.11 means a spouse, any child where such child is under the age of 18 years, any trust in which such individuals are trustees or beneficiaries and any company over which they have control or can exercise more than 20 per cent. of its voting or equity rights in general meeting, but excluding any employee share or pension scheme where such individuals are beneficiaries rather than trustees) held any financial

product whose value in whole or in part is determined directly or indirectly by reference to the price of Ordinary Shares.

- 7.12 So far as is known to the Company, the persons other than the Directors, who directly or indirectly hold three per cent. or more of the voting rights in respect of the Ordinary Shares in issue, as at the date of this document and as they are expected to be immediately following Admission, are as follows:

<i>Name</i>	<i>At the date of this document</i>		<i>On Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Shares</i>	<i>Number of Ordinary Shares immediately following Admission</i>	<i>Percentage of Enlarged Ordinary Share Capital</i>
Andre Stewart ¹	5,500,000	17.21%	5,500,000	11.56%
Herald Investment Management Limited	2,000,000	6.26%	3,230,715	6.79%
Investec Bank plc	2,000,000	6.26%	2,285,714	4.80%
AXA Framlington Investment Management	1,217,602	3.31%	1,460,459	3.07%
UBK S.p.A.	1,200,000	3.75%	1,200,000	2.52%
F&C Asset Management	1,555,556	4.87%	1,555,556	3.27%

¹ held in the name of BFG Investments Group Limited, which is wholly owned by Andre Stewart.

- 7.13 The Shareholders listed in paragraph 7.12 above do not have different voting rights from other Shareholders.
- 7.14 So far as the Company is aware, the Company is not owned or controlled directly or indirectly by any entity.
- 7.15 Save as disclosed in paragraph 7.12 above, the Company is not aware of any other persons who, immediately following Admission, will directly or indirectly, jointly or severally, exercise or could exercise control over the Company.
- 7.16 In addition, so far as the Company is aware, there are no arrangements in place, the operation of which may at a subsequent date result in a change of control of the Company.

8. DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

- 8.1 The following are summaries of the principal terms of the service agreements and letters of appointment of each of the Directors:

(a) *Service Agreements*

- (i) A service agreement dated 13 July 2010 and made between the Company and Andrew Miller. The service agreement is terminable by either party on not less than three months' written notice increasing by one month at the end of each complete 12 month period of continuous employment provided that the notice period shall not exceed six months in total. The agreement contains provisions for early termination in certain circumstances. The basic salary payable to Mr. Miller is £125,000 per annum. In addition, the Company has agreed to provide other benefits commensurate with his position including private medical insurance, life insurance, permanent health insurance, car allowance and contributions of up to 10 per cent. of his basic salary to his personal pension scheme. Mr. Miller may be entitled to a bonus of such amount as the Company shall at its entire discretion determine.
- (ii) A service agreement dated 5 October 2000 and made between Corero Systems and Bernard Snowe. Mr. Snowe's employment is terminable by (i) either party giving not

less than three months' written notice; (ii) Corero Systems without notice in certain circumstances; and (iii) Mr. Snowe on one month's notice in circumstances where there is a change of control in Corero Systems or any person acquires the right to control the composition of the board of Corero Systems. The basic salary payable to Mr. Snowe is £126,000 per annum. In addition, the Company has agreed to provide other benefits commensurate with his position including private medical insurance, life insurance, sickness and accident insurance, company car or car allowance and contributions of up to 10 per cent. of his basic salary to his personal pension scheme. Mr. Snowe is entitled to participate in an annual bonus plan based on the achievement of certain business unit, group and individual performance metrics, under which his annual on-target earnings is £40,800 with a maximum bonus of £81,600.

(b) *Letters of Appointment*

- (i) A letter of appointment dated 13 July 2010 and made between the Company and Jens Montanana. The fee payable to Mr. Montanana is £6,000 per annum. Mr. Montanana will also be reimbursed for all reasonable and properly documented expenses incurred in the performance of his duties. The letter of appointment is for a period of 12 months and thereafter may be terminated by either party upon three months' notice or immediately by the Company in certain circumstances.
- (ii) A letter of appointment dated 13 July 2010 and made between the Company and Richard Last. The fee payable to Mr. Last is £15,000 per annum. Mr. Last will also be reimbursed for all reasonable and properly documented expenses incurred in the performance of his duties. The letter of appointment is for a period of 12 months' and thereafter may be terminated by either party upon three months' notice or immediately by the Company in certain circumstances.

8.2 With effect from 4 February 2011, Mr. Montanana assumed the role of non-executive Chairman. Peter Waller, the non-executive Chairman immediately prior to that date, resigned his position as a director with effect from 4 February 2011.

8.3 No Director is entitled to receive any benefits upon termination of his service agreement or letter of appointment other than salary and benefits accrued on the date of such termination.

8.4 Except as disclosed in paragraph 8.1 above, there are no existing or proposed service agreements or consultancy agreements, between any Director and any member of the Group or Top Layer, whether providing for benefits upon termination of employment or otherwise, and no such agreements have been entered into, replaced or amended within the six months preceding the date of this document.

8.5 Each of the Directors, in accordance with the terms of the Articles and a stand-alone deed of indemnity, has the benefit of an indemnity from the Company in respect of liability to third parties incurred by him as a result of his actions or omissions as a Director of the Company or any Group company. The Directors will only be indemnified: (a) to the extent permitted by law; (b) subject to such exclusions as are referred to in the Articles and the deeds of indemnity; and (c) subject to the Director complying in full with the requisite notification procedures.

9. EMPLOYEES

9.1 As at 30 June 2010, the Group had 45 employees, including Duncan Swallow as company secretary. 12 of these employees left the Group as a result of the disposal of the Financial Markets division, as a result of the August 2010 Transaction.

9.2 As at 30 June 2010, Top Layer Group had 51 employees.

9.3 Following completion of the Acquisition, the Enlarged Group will have approximately 89 employees, including 47 in the US, all of whom will be permanent employees.

10. MATERIAL CONTRACTS

- 10.1 The Company and the other members of the Group have entered into the following contracts, not being contracts entered into in the ordinary course of business, which are or may be material in the two year period preceding the publication date of this document:

10.1.1 *Merger Agreement*

An agreement between (1) the Company, (2) Tomcat Sub, (3) Top Layer, (4) CrossHill Debt II, L.P., (5) CrossHill Georgetown Capital, L.P. and (6) Loudwater Trust Limited dated 7 February 2011 (“Merger Agreement”) to merge Tomcat Sub with and into Top Layer pursuant to which Top Layer will be the surviving corporation and will become a wholly owned subsidiary of the Company (the “Merger”).

The Merger will become effective at 7.30 a.m. local time in London, England, on the business day immediately following the passing at the General Meeting of the Resolutions numbered 1, 2 and 4 (“Shareholder Approval”) and the filing with the Secretary of State of the State of Delaware of the required certificate of merger which is expected to be given effective as at 7.30 a.m. on the day of Admission (“Completion Date”). Completion is conditional on (i) the passing of Resolutions numbered 1, 2 and 4 in the notice of General Meeting; (ii) application for admission of the Completion Consideration Shares to trading on AIM having been made; (iii) the representations and warranties given by Top Layer, the Principal Stockholders, the Company and Tomcat Sub respectively being true and correct in all material respects as at the Effective Time (being the date and time on which the Merger shall become effective); (iv) each party having performed in all material respects all of the covenants required to be performed by them in the Merger Agreement; (v) there not having occurred any Company Material Adverse Effect (as defined in the Merger Agreement) in respect of Top Layer; (vi) holders of no more than 10 per cent. of the outstanding common stock of Top Layer being Dissenting Shares (that is those who object to the Acquisition); and (vii) there not being any temporary restraining order, injunction or other court order preventing the Acquisition. Pending Completion, Top Layer has given certain undertakings to the Company in relation to the operation and conduct of its business.

The merger consideration shall be an amount equal to \$15,288,160 (“Merger Consideration”) and shall be allocated and paid as described below.

On the Completion Date:

- (a) each Preferred Share and each Noteholder Preferred Share of Top Layer that is then issued and outstanding shall be cancelled in consideration of the right to receive at the Completion Date its allocable portion of (i) the Consideration Loan Notes, (ii) 8,035,005 of the Completion Consideration Shares, having an ascribed value of \$5,604,416, and (iii) \$2,632,951 in cash;
- (b) each Common Share of Top Layer that is then issued and outstanding (other than common shares held by persons who properly exercise certain rights of appraisal in accordance with the General Corporation Law of the State of Delaware) shall be cancelled and extinguished without the right to receive any portion of the Merger Consideration;
- (c) each Management Preferred Share of Top Layer that is then issued and outstanding shall be cancelled in consideration of the right to receive its allocable portion of (i) within 30 days after the Completion Date, 1,003,850 of the Completion Consideration Shares having an ascribed value of \$700,185 and \$540,453 in cash; and (ii) within 30 days after the date that is 18 months after the Completion Date, subject to adjustment for set off against any warranty claims brought by the Company, the Deferred Consideration Shares having an ascribed value of \$123,559; and

- (d) a deposit of \$500,000 shall be paid into an escrow account (“Escrow Account”) and comprise the Escrow Deposit.

Within 30 days after the Completion Date, \$279,000 in cash shall be paid by the Company to Top Layer to be used by Top Layer to satisfy the obligations of Top Layer under the Special Bonus Plan of Top Layer dated 8 December 2010 (described in paragraph 10.2.1 of this Part V).

At the Effective Time, by virtue of the Merger and without any action on the part of the Company or Tomcat Sub, each share of common stock of \$0.01 of Tomcat Sub shall be converted into one share of common stock of \$0.01 of Top Layer.

The Company and Tomcat Sub have given certain customary warranties to Top Layer and the Principal Stockholders. Top Layer has given warranties to the Company and Tomcat Sub in relation to the business, finances and operational status of the Top Layer Group. Each of the Principal Stockholders has given warranties to the Company and Tomcat Sub in respect of, *inter alia*, their authority to enter into the Merger Agreement.

The Merger Agreement contains indemnities given by:

- Top Layer and the Principal Stockholders in favour of the Company and Tomcat Sub. The total aggregate liability of (i) CrossHill Debt II, L.P. and CrossHill Georgetown Capital, L.P. under these indemnities shall not exceed \$5,587,195; and (ii) Loudwater Trust Limited under these indemnities shall not exceed \$6,762,662; and
- the Company in favour of Top Layer and the Principal Stockholders. The total aggregate liability of the Company under these indemnities shall not exceed \$15,288,160.

If the Principal Stockholders are finally determined to be liable to the Company and/or Tomcat Sub under the indemnity in respect of a breach of:

- a non Fundamental Representation (as that term is defined in the Merger Agreement), the Company may obtain payment through a combination of (i) the release of monies from the Escrow Account; and (ii) offset against the Deferred Consideration so that such shares shall not be issued; and
- *inter alia*, a Fundamental Representation (as that term is defined in the Merger Agreement), the Company may (i) first, offset the amount owed against the principal amount of the Consideration Loan Notes; (ii) second, obtain payment directly from the Principal Stockholders to the extent of the proceeds from the sale of the Completion Consideration Shares; and (iii) third, obtain payment of the remaining amount owed directly from the Principal Stockholders to the extent of the cash portion of the consideration received by them under the Merger Agreement.

The Merger Agreement may be terminated at any time prior to the Completion Date by (i) the mutual written consent of the parties to the agreement; (ii) either the Company or Tomcat Sub, on the one hand, or Top Layer and the Principal Stockholders, on the other, if the transactions contemplated by the Merger Agreement or the certificate of merger are not consummated by 31 May 2011; or (iii) the Company or Tomcat Sub if, after the date of the agreement, there is a Company Material Adverse Effect (as described in the Merger Agreement) in respect of Top Layer.

Further details of the Merger Agreement are contained in paragraph 5 of Part I of this document.

10.1.2 Relationship Agreement

A board representation and observer rights agreement between (1) the Company, (2) CrossHill Debt II, L.P., (“Crosshill”) (3) Crosshill Georgetown Capital, L.P. (“Georgetown”) and (4)

Loudwater Trust Limited (“Loudwater”) dated 7 February 2011 (“Relationship Agreement”). The Relationship Agreement is conditional on the Merger becoming effective in accordance with its terms.

For the purposes of the summary of the Relationship Agreement in this paragraph 10.1.2, “Shareholders” means Crosshill and Georgetown on the one hand (together being a “Shareholder”) and Loudwater on the other hand.

For so long as the Shareholders (or any of them) hold any of the Consideration Loan Notes and such notes remain outstanding or the Shareholders (or any of them) are, in aggregate, the legal and beneficial owners of more than 10 per cent. of the entire issued Ordinary Shares of the Company, the Larger Shareholder (being the Shareholder that holds the greater number of Ordinary Shares or, if neither Shareholder holds any Ordinary Shares, the Shareholder that holds Consideration Loan Notes representing the greater principal sum) shall be entitled (but not obliged) to require the appointment of one director to the Board (“Appointing Shareholder”), such appointment to be of a non-executive Director (the “Nominated Director”). The Larger Shareholder may remove from office such Nominated Director and may appoint another Nominated Director in that person’s place.

The Larger Shareholder shall not be able to exercise the right to appoint a Nominated Director during the period of three months following Admission. No fee shall be payable by the Company to the Nominated Director for the provision of that person’s services as a director.

Immediately upon (a) the Shareholders ceasing to hold any of the Consideration Loan Notes and/or the Consideration Loan Notes being redeemed or repaid in full and (b) the Shareholders being the legal and beneficial owners of, in aggregate, 10 per cent. or less of the entire issued Ordinary Shares of the Company, neither Shareholder shall have any entitlement to require the appointment of a Nominated Director and the Appointing Shareholder shall procure that any Nominated Director shall resign from the Board (without any compensation).

The Relationship Agreement contains an indemnity given by the Appointing Shareholder in favour of the Company in relation to the removal of Nominated Directors.

For as long as either (a) the Shareholders (or any of them) are, in aggregate, the legal and beneficial owners of more than 10 per cent. of the entire issued Ordinary Shares of the Company, or (b) the Shareholders (or any of them) hold Consideration Loan Notes with an aggregate principal value of not less than \$1 million, the Smaller Shareholder shall have the right, exercisable by notice in writing to the Company, to appoint a representative as an observer (“Observer”), to attend (in person or by conference telephone facility) (but not to speak, vote or to place items on the agenda for discussion) at each and any meeting of the Board and remove any person so appointed. The Smaller Shareholder shall not be able to exercise the right to appoint an Observer during the period of three months following Admission.

10.1.3 *Principal Stockholders Lock-In Deed*

Each of the Principal Stockholders has agreed that for a period of 12 months from Admission, he will not dispose of any of the Ordinary Shares to which he is legally or beneficially entitled as a result of the Merger Agreement and, for a further 12 months, he will, at least two Business Days prior to a disposal of such shares being made and becoming effective, notify finnCap in writing of the proposed disposal. These restrictions are subject to customary exceptions including where there has been an acceptance of an offer for the entire issued share capital of the Company or the giving of an irrevocable undertaking to accept an offer. There is also a carve out for disposals of such Ordinary Shares in order to enable the Principal Stockholders to satisfy any claims made by the Company or Tomcat Sub pursuant to the indemnity contained in the Merger Agreement.

10.1.4 *Management Lock-In Deed*

Each member of the Top Layer Management Team (each a “manager”) has agreed that he will not, and will use all reasonable endeavours to procure that any person connected with him will not, during the Lock In Period (defined below) dispose of the Completion Consideration Shares which are at that time subject to the Lock In Period (“Restricted Shares”). “Lock In Period” means (i) with respect to each manager’s entire holding of Restricted Shares, the period from the date of Admission up to and including the date of the first anniversary of the date of Admission (“First Lock In Period”); (ii) with respect to 80 per cent. of each manager’s holding of Restricted Shares, the period commencing on the date immediately following the expiry of the First Lock In Period and ending on the first anniversary thereafter (“Second Lock In Period”); and (iii) with respect to 50 per cent. of each manager’s holding of Restricted Shares, the period commencing on the date immediately following the expiry of the Second Lock In Period and ending on the first anniversary thereafter (“Third Lock In Period”). Each member of the Top Layer Management Team has further agreed that he will, in respect of Ordinary Shares which are no longer the subject of a Lock In Period, at least two Business Days prior to a disposal of such shares being made and becoming effective, notify finnCap in writing of the proposed disposal provided that the manager may not dispose of any locked in Ordinary Shares while he is an employee or consultant of any member of the Group. The restrictions are subject to a number of customary exceptions including where there has been an acceptance of an offer for the entire issued share capital of the Company or the giving of an irrevocable undertaking to accept an offer. There is also a carve out for disposals made by way of gift to any person or persons acting in the capacity of trustee or trustees of a trust created by the manager provided that there are no persons beneficially interested under the trust other than the manager and the spouse or civil partner or children under 18 years of age of that manager.

10.1.5 *Placing Agreement*

Under the Placing Agreement, finnCap has agreed to use reasonable endeavours to procure subscribers for the Placing Shares. The Placing Agreement is conditional, amongst other things, on the passing of Resolutions 1, 2 and 4 and on Admission occurring no later than 8.00 a.m. on 2 March 2011 or such later date as the Company and finnCap may determine (being in any event not later than 8.00 a.m. on 31 March 2011). The Company shall, on and subject to Admission, pay finnCap a corporate finance fee of £80,000 together with a commission of 5 per cent. of the amount equal to the aggregate value of the Placing Shares subscribed for under the Placing at the Placing Price. The Company shall bear its own costs and expenses, and pay the reasonable and properly incurred costs and expenses of finnCap in relation to and incidental to the Placing, the allotment and issue of the Placing Shares, Admission, professional fees, costs of printing, advertising and circulating the documents, and any other incidental matter. The Placing Agreement contains warranties and indemnities given by the Company in favour of finnCap in relation to the Placing. The Placing Agreement is terminable in certain circumstances by finnCap prior to Admission in particular in the event of a material breach of the warranties. The Company also has given undertakings to finnCap that, *inter alia*, it will refrain from taking certain actions in relation to the Merger Agreement without the prior consent of finnCap. The Placing has not been underwritten.

10.1.6 *Subscription Agreement*

The Company entered into a Subscription Agreement with Jens Montanana, JPM International Limited, BFG Investments Group Limited, Andrew Miller, Stephen Turner and UBK Spa (together the “Investors”) on 13 July 2010 pursuant to which the Investors agreed to subscribe for 18,000,000 new ordinary shares in the Company (“Subscription Shares”). The Subscription Agreement contains warranties from the Company in favour of the Investors. Under the Subscription Agreement, for as long as the Investors’ hold, directly or indirectly, 20 per cent. or more of the issued ordinary share capital of the Company from time to time, the Lead Investors (being such number of Investors as hold either directly or indirectly at least two thirds of the aggregate number of Ordinary Shares held by all the Investors from time to

time), on behalf of themselves and the Investors, are entitled to appoint one director (and to remove and replace any such appointee) to the Board. At the date of this document, the Lead Investors have not exercised this right. The Subscription Agreement also contains orderly marketing provisions whereby if any Investor wishes to dispose of any of its Subscription Shares prior to 9 August 2012, that Investor must effect such sale only through finnCap (or such other broker or brokers that may be nominated by the Company) who will arrange for such sale or transfer of shares on a best execution basis. However, if finnCap (or such other broker or brokers as may be nominated by the Company) fails to arrange for such sale or transfer within 20 days of being instructed to do so the orderly marketing restrictions shall cease to apply and that Investor may dispose of those shares at a price (being not less than the price obtainable by finnCap or such other broker on a best execution basis) and on such terms as it may determine. These orderly marketing provisions also apply to any additional Ordinary Shares that an Investor may hold during the period from 9 August 2010 to 9 August 2012.

10.1.7 *Placing Agreement*

On 13 July 2010, the Company entered into a placing agreement with Jens Montanana and finnCap. Under the terms of the Placing Agreement, finnCap agreed, subject to certain conditions, to use its reasonable endeavours to procure places to subscribe for Ordinary Shares. The Placing was not underwritten. The Company raised £2 million (before expenses) and finnCap received a corporate finance fee of £15,000 plus a commission of 5 per cent. of the amount equal to the aggregate value of the Ordinary Shares subscribed at the placing price of £0.25 per share. Certain indemnities (by the Company) and warranties (including warranties in relation to the accuracy of this document) were given to finnCap by each of the Company and Mr. Montanana.

10.1.8 *Business Transfer Agreement*

Corero Systems entered into the Business Transfer Agreement with Rivington Street Ventures Limited (“Rivington”), Brokerhorse Limited (“Purchaser”) and Rivington Street Holdings plc (“RSH”) on 13 July 2010 pursuant to which the Purchaser agreed to acquire from Corero Systems the financial markets division. The consideration payable by the Purchaser was satisfied by the issue by Rivington of the Rivington Stock (being the 8 per cent. Rivington Stock and the £127,781 nominal of zero coupon unsecured redeemable loan stock of Rivington) to such persons as Corero Systems notified to the Purchaser. The obligations of the Purchaser under the Business Transfer Agreement are guaranteed by RSH, which also agreed to enter into the loan stock instruments in relation to the Rivington Stock as guarantor. Corero Systems agreed to provide certain customary warranties to the Purchaser in relation to the business. Corero Systems’ liability in respect of any breach of such warranties is limited as provided for in the Business Transfer Agreement. Most notably, its liability for claims for breach of warranty is limited as follows: (i) to the extent that the matter giving rise to the relevant claim has been disclosed to the Purchaser; (ii) all breach of warranty claims, when taken together, shall not exceed £1,000,000; and (iii) it shall not be liable for any breach of warranty claim to the extent that the Purchaser fails to notify it of such claim within 15 months of completion, being 6 August 2010. Corero Systems also entered into certain non-compete and non-solicitation undertakings on behalf of itself and its affiliated companies for a period of 18 months following completion of the Business Transfer Agreement.

10.1.9 *Nominated Adviser Engagement Letter*

On 28 June 2010, the Company entered into an engagement letter with finnCap, pursuant to which the Company appointed finnCap as its nominated adviser and broker with effect from 9 August 2010. The appointment is for an initial period of one year and shall continue thereafter unless and until terminated by either the Company or finnCap on not less than three months’ notice or in the event of breach by either party. In consideration of the services to be provided by finnCap, the Company has agreed to pay (in each case, exclusive of VAT): (i) £2,083 per month for the first six months from the date of finnCap Limited’s appointment;

(ii) £2,708 per month for the following six months; and (iii) thereafter, £40,000 per annum. The Company has agreed to provide finnCap with certain information and notifications and has further agreed to indemnify finnCap and certain of its related parties in relation to, amongst other things, claims arising out of finnCap's provision of services to the Company and the failure of the Company to disclose certain information to finnCap.

10.1.10 *Mark Robertson Consultancy Agreement*

Mr. Robertson, Abelau Limited (the "Providers") and Corero Systems entered into a consultancy agreement on 14 July 2010 pursuant to which the Providers agreed to advise and assist Corero Systems, amongst other things, in relation to the transition of the business pursuant to the Business Transfer Agreement (summarised in paragraph 10.1.8 of this Part V). The Providers were appointed for two months with effect from 6 August 2010 and paid a fee of £10,000 (excluding VAT) per month in arrears. Mr. Robertson is no longer a director or shareholder of the Group.

10.1.11 *Implementation Agreement*

The Company and Corero Systems entered into an implementation agreement on 13 July 2010 pursuant to which the Company agreed to transfer to Corero Systems an amount of £2,127,781 in order to facilitate the sale of the business by Corero Systems pursuant to the Business Transfer Agreement (summarised in paragraph 10.1.8 of this Part V). Under the terms of the implementation agreement, this amount of £2,127,781 is to be left outstanding as an on demand inter-company loan.

10.1.12 *CULS Orderly Market Arrangements*

Each of Foresight Group LLP (acting for each of Foresight 3 VCT plc and Foresight VCT plc), Invesco Asset Management Limited, Artemis Investment Management Limited, Duncan Lawrie Asset Management Limited, New City Investment Managers Limited and AXA Investment Managers UK Limited (acting for AXA Framlington Managed Income Fund, AXA Framlington AIM VCT PLC and AXA Framlington AIM VCT 2 PLC) (the "CULS Irrevocable Providers") entered into an orderly market arrangement in favour of the Company and finnCap during 13 July 2010 (together, the "CULS orderly market arrangements"). Pursuant to the terms of the CULS orderly market arrangements, each CULS Irrevocable Provider has agreed, in respect of all Ordinary Shares as issued to such CULS Irrevocable Provider, that any disposal of such Ordinary Shares prior to 8 August 2011 shall be effected only through finnCap (or such other broker or brokers as may be nominated by the Company) on a best execution basis (except where finnCap (or the relevant broker) fails to arrange for the sale or transfer of such Ordinary Shares within 20 days of being instructed to do so, in which case the CULS Irrevocable Provider is at liberty to dispose of such Ordinary Shares at such price (not being less than the price obtainable by finnCap (or the relevant broker) on a best execution basis) and on such terms as it may determine).

10.2 Top Layer and the other members of the Top Layer Group have entered into the following contracts, not being contracts entered into in the ordinary course of business, which are or may be material in the two year period preceding the publication date of this document:

10.2.1 *Change of Control Agreements and Special Bonus Plan*

On 8 December 2010, change of control agreements were entered into between Top Layer and each member of the Top Layer Management Team pursuant to which the managers are entitled to receive certain payments on a change of control of Top Layer if they are employed by Top Layer at that time. The change of control agreements will be exchanged for the Management Preferred Shares prior to the Merger becoming effective. Details of the benefits to which the managers, as the holders of the Management Preferred Shares, are entitled on the Merger becoming effective are set out in paragraph 5 of Part I.

On 8 December 2010, Top Layer put in place a Special Bonus Plan which provides for certain payments to be made to the Top Layer employees (excluding the Top Layer Management Team) on a change of control.

10.2.2 *Consideration Loan Note Agreement*

Under the terms of the Merger Agreement, Top Layer will issue \$5,000,000 in Consideration Loan Notes to the Principal Stockholders on Completion. The principal terms of the Consideration Loan Notes are that there is an 8 per cent. per annum interest rate with interest payable bi-annually or added to the principal amount at the election of Top Layer. The Consideration Loan Notes are repayable three years following Completion but can be repaid prior to the repayment date without penalty at the sole election of Top Layer. In the event that the Consideration Loan Notes are repaid within (i) 180 days following the date of their issuance, the Consideration Loan Notes shall be repaid at a 10 per cent. discount to the amount of principal outstanding at the time of repayment, or (ii) 120 days following the date of its issuance, the Consideration Loan Notes shall be repaid at a 12 per cent. discount to the amount of principal outstanding at the time of repayment. The obligation of Top Layer under the Consideration Loan Notes are secured, subordinated in favour of the obligations due by Top Layer under the Sand Hill Financing Agreement, by a charge over its assets.

10.2.3 *Sand Hill Financing Agreement*

On 24 July 2008, a financing agreement was entered into between Top Layer and SHF pursuant to which SHF shall, if it elects to purchase a book debt of Top Layer, pay to Top Layer an advance of 80 per cent. of the face value of the account (“Advance”). The aggregate outstanding Advances shall not exceed \$1,250,000 (“Credit Limit”). Top Layer shall pay to SHF (i) on each anniversary of the date of the agreement, a commitment fee equal to 1 per cent. of the Credit Limit; and (ii) on the last day of each calendar month, a finance fee equal to 1.875 per cent. per month of the average daily obligations outstanding during that month. Top Layer covenanted not to, amongst other things, without the prior written consent of SHF, permit or suffer a change of control of Top Layer. The prior written consent of SHF to the Acquisition was obtained on 3 February 2011. This agreement is governed by the laws of the state of California. The obligations of Top Layer under this agreement are secured by a charge over all its assets.

10.2.4 *Sand Hill Deposit Account Control Agreement*

On 23 July 2008, a deposit account control agreement was entered into between Top Layer, Square 1 Bank and SHF pursuant to which Top Layer agreed to grant SHF a charge over its deposit account with Square 1 Bank and all funds held in that account from time to time. This agreement is governed by the laws of the state of North Carolina.

10.2.5 *Termination Agreement*

On 12 July 2010, a termination agreement was entered into between Japan Venture Partners LLC, Top Layer and Top Layer Japan K.K. (“TLNJ”) pursuant to which (i) the parties agreed to terminate the service agreement between Top Layer and TLNJ under which Top Layer owed TLNJ an amount of JPY¥40,972,188; (ii) Top Layer agreed to the repurchase of 2,949,119 of its 2,949,120 shares of common stock in TLNJ by TLNJ; and (iii) Top Layer and TLNJ agreed to enter into a reseller agreement under which TLNJ has the exclusive right to sell Top Layer products and services in Japan. This termination agreement is governed by the laws of the Commonwealth of Massachusetts. Top Layer ceased control of TLNJ in June 2009 and the transfer of the shares in TLNJ to TLNJ is awaiting tax clearance.

11. TAXATION

11.1 *General*

The comments in this section are intended as a general guide for the benefit of holders of shares as to their tax position under United Kingdom law and HMRC practice as at the date of this document. The comments apply to shareholders who are resident and ordinarily resident for tax purposes in the UK (except in so far as express reference is made to the treatments of non-UK residents) who will hold Ordinary Shares as an investment and will be the absolute beneficial owners of them. The tax position of certain shareholders who are subject to special rules, such as dealers in securities, broker-dealers, insurance companies and collective investment schemes is not considered. Any shareholder who has any doubt as to his or her tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult a professional adviser without delay.

11.2 *Taxation of chargeable gains made by shareholders*

The following paragraphs apply to non-employee shareholders. Employee shareholders may be subject to an alternative tax regime and should consult their own professional adviser.

For the purpose of UK tax on chargeable gains, the purchase of Ordinary Shares on a placing will be regarded as an acquisition of a new holding in the share capital of the Company.

To the extent that a shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so acquired will, for the purpose of tax on chargeable gains, be treated as acquired on the date of the purchase becoming unconditional.

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

A disposal of all or any of the Ordinary Shares may, depending on the circumstances of the relevant shareholder give rise to a liability to UK taxation on chargeable gains. Shareholders will normally be subject to UK taxation of chargeable gains, unless such holders are neither resident nor, in the case of individuals, ordinarily resident in the UK. For individuals, capital gains tax will be charged at 18 per cent. where the total chargeable gains and, generally, total taxable income arising in a tax year, after all allowable deductions (including losses, the income tax personal allowance and the capital gains tax annual exempt amount, which is currently £10,100), are less than the upper limit of the income tax basic rate band (which is currently £37,400). Subject to the following paragraph, to the extent that any chargeable gains (or part of any chargeable gains) arising in a tax year exceed the upper limit of the income tax basic rate band when aggregated with any such income (in the manner referred to above), capital gains tax will be charged at 28 per cent. For trustees and personal representatives of deceased persons, it is intended that capital gains tax will be charged at a flat rate of 28 per cent. Where a Shareholder is within the charge to corporation tax, a disposal of Ordinary Shares may give rise to a chargeable gain (or allowable loss) for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemption or relief. Corporation tax is charged on chargeable gains at the rate applicable to that company. Indexation allowance may reduce the amount of chargeable gain that is subject to corporation tax but may not create or increase any allowable loss.

11.3 *Taxation of dividends*

Under current United Kingdom legislation, no tax is required to be withheld from dividend payments by the Company. Shareholders (other than a company) receiving a dividend from the Company also receive a tax credit in respect of the dividend of an amount equal to one-ninth of the amount of the dividend which is 10 per cent. of the sum of the dividend and the tax credit. Generally, the liability to United Kingdom income tax is calculated on the sum of the dividend and the tax credit ("the dividend income"). Individual shareholders whose income is within the basic rate tax band will be subject to income tax at the rate of 10 per cent. on their dividend income, so that such shareholders will have no further liability to income tax on that dividend income. The higher rate of income tax is currently 32.5 per cent. in respect of dividend income. After allowing for the 10 per cent. deemed tax credit, a higher rate taxpayer suffers an effective rate of 25 per cent. on the net dividend received.

The income tax rate on dividends is 42.5 per cent. for individuals whose taxable income is more than £150,000. After allowing for the 10 per cent. deemed tax credit, an additional rate taxpayer suffers an effective rate of 36.11 per cent. on the net dividend received. The dividend trust rate is also 42.5 per cent. Shareholders who are not liable to income tax on the dividend income (or any part of it) may not claim payment of the tax credit (or part of it) from the Revenue.

Shareholders within the charge to UK corporation tax which are “small companies” (for the purposes of UK taxation of dividends) will not generally expect to be subject to tax on dividends from the Company. Other Shareholders within the charge to UK corporation tax will not be subject to tax on dividends (including dividends from the Company) so long as the dividends fall within an exempt class and certain conditions are met. In general, dividends paid on shares that are “ordinary share capital” for UK tax purposes and are not redeemable, and dividends paid to a person holding less than 10 per cent. of the issued share capital of the payer (or any class of that share capital) are examples of dividends that fall within an exempt class. United Kingdom resident shareholders (including authorised unit trusts and open ended investment companies) and pension funds are not entitled to payment in cash of the tax credit.

Whether shareholders who are resident for tax purposes in countries other than the United Kingdom are entitled to a payment from the Revenue of a proportion of the tax credit in respect of dividends on their Ordinary Shares depends in general upon the provisions of any double taxation convention or agreement which exists between such countries and the United Kingdom. In addition, individual shareholders who are resident in countries other than the United Kingdom but who are Commonwealth citizens, nationals of member states of the European Economic Area or fall within certain other categories of person within Section 56 of the Income Tax Act 2007 are entitled to the entire tax credit which they may set against their total UK income tax liability or, in appropriate cases, reclaim in cash. Non-UK resident shareholders should consult their own tax advisers on the possible application of such provisions and the procedure for claiming any relief or credit in respect of such tax credit in their own jurisdictions. However, in general, no cash payment will be recoverable from the Revenue in respect of the tax credit.

11.4 *Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)*

A transfer or sale of shares will generally be subject to *ad valorem* stamp duty at the rate of 0.5 per cent. rounded up to the nearest multiple of £5 on the amount or value of the consideration paid by the purchaser. If an unconditional agreement for the transfer of such Ordinary Shares is not completed by a duly stamped transfer to the transferee by the seventh day of the month following the month in which the agreement becomes unconditional, SDRT will be payable on the agreement at the rate of 0.5 per cent. of the amount or value of consideration paid. Liability to SDRT is generally that of the transferee. Where a purchase or transfer is effected through a member of the London Stock Exchange or a qualified dealer, the said member or dealer will normally account for the SDRT.

When Ordinary Shares are transferred to a CREST member who holds those shares in uncertificated form as a nominee for the transferor, no stamp duty or SDRT will generally be payable.

When Ordinary Shares are transferred by a CREST member to the beneficial owner (on whose behalf it has held them as nominee) no stamp duty or SDRT will generally be payable.

Where a change in beneficial ownership of Ordinary Shares held in uncertificated form occurs and such change is for consideration in money or money’s worth (whether the transferee will hold those shares in certificated or uncertificated form) a liability to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration will arise. This will generally be met by the new beneficial owner.

11.5 *Income Tax*

The following paragraph applies to non-employee shareholders. Employee shareholders may be subject to an alternative tax regime and should consult their own professional adviser.

There will be no charge to income tax on the purchase or sale of the Ordinary Shares. The tax treatment of dividends received on the Ordinary Shares is dealt with in paragraph 11.3 above.

11.6 *Inheritance Tax*

Individual and trustee investors domiciled or deemed to be domiciled in any part of the UK may be liable on occasions to inheritance tax (“IHT”) on the value of any Ordinary Shares held by them. IHT may also apply to individual shareholders who are not domiciled in the UK although relief under a double tax convention may apply to those in this position.

Under current law, the chief occasions on which IHT is charged are on the death of the shareholder, on any gifts made during the seven years prior to the death of the shareholder, and on certain lifetime transfers, including certain transfers to trusts or appointments out of trusts to beneficiaries.

However, a relief from IHT known as business property relief (“BPR”) may apply to Ordinary Shares in trading companies once these have been held for two years. This relief applies notwithstanding that the Company’s shares will be admitted to trading on AIM (although it does not apply to companies whose shares are listed on the Official List). BPR operates by reducing the value of shares by 100 per cent. for IHT purposes.

11.7 *General*

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

12. WORKING CAPITAL

In the opinion of the Directors, having made due and careful enquiry, the working capital available to the Enlarged Group will be sufficient for its present requirements, that is for at least twelve months from the date of Admission.

13. LITIGATION

- 13.1 Neither the Company nor any of its Subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during the 12 months preceding the date of this document, which have had in the recent past, or may have, a significant effect on the Company and/or the Group’s financial position or profitability.
- 13.2 Neither Top Layer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Top Layer is aware), during the 12 months preceding the date of this document, which have had in the recent past, or may have, a significant effect on Top Layer and/or the Top Layer Group’s financial position or profitability.

14. RELATED PARTY TRANSACTIONS

As far as the Directors are aware, there have been and are currently no agreements or other arrangements between members of the Group and individuals or entities, that may be deemed to be related parties, for the period from 1 January 2007 until the date of this document save as disclosed in paragraphs 10.1.6 and 10.1.10 of Part V of this document and in the financial information of the Company incorporated by reference into this document (see note 31 of the financial statements for the year ended 31 December 2007, see note 31 of the financial statements for the year ended 31 December 2008 and see note 30 of the financial statements for the year ended 31 December 2009).

15. INFORMATION ON HOLDINGS

The Company does not hold a proportion of capital in any undertakings outside the Group which are likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profits and losses.

16. SIGNIFICANT CHANGE

- 16.1 Save as disclosed in the financial information incorporated by reference into this document entitled “Post Balance Sheet Events” in the financial statements for the six month period ended 30 June 2010 relating to the August 2010 Transaction, there has been no significant change in the financial or trading position of the Group since 30 June 2010 being the end of the last financial period for which interim financial information has been published.
- 16.2 There has been no significant change in the financial or trading position of the Top Layer since 30 June 2010 being the end of the last financial period for which interim financial information has been published.

17. MANDATORY BIDS, SQUEEZE-OUT AND SELL OUT RULES

(a) *Mandatory bid*

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

(b) *Squeeze-out*

Under the 2006 Act, if an offeror were to acquire 90 per cent. of the Ordinary Shares to which the offer relates within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it would compulsorily acquire their Ordinary Shares. Six weeks later, it would be entitled to execute a transfer of the outstanding Ordinary Shares to it and pay the consideration to the Company, which would hold it on trust for outstanding Shareholders. The consideration offered to the Shareholders whose Ordinary Shares are compulsorily acquired under the 2006 Act must, in general, be the same as the consideration that was available under the takeover offer.

(c) *Sell-out*

The 2006 Act would also give minority Shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares in the Company and, at any time before the end of the period within which the offer could be accepted, the offeror held (or had agreed to acquire) not less than 90 per cent. of the Ordinary Shares, any Shareholder of Ordinary Shares to which the offer related who had not accepted the offer could, by a written communication to the offeror, require it to acquire those Ordinary Shares. The offeror would be required to give any Shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on those rights of minority Shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period under the offer. If a Shareholder exercises his rights, the offeror is entitled and bound to acquire those Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

18. GENERAL

- 18.1 Assuming Admission takes place, the total costs and expenses payable by the Company in connection with the Acquisition and the Placing (including professional fees, the cost of printing and the fees payable to finnCap and Capita) are estimated at approximately £510,000 exclusive of VAT.
- 18.2 Save as disclosed in this document, particularly at paragraph 18.3, no person (other than professional advisers referred to in this document or trade suppliers dealing with members of the Group) has:
- (a) received, directly or indirectly, from any member of the Group, within the twelve months preceding the Company's application for Admission; or
 - (b) entered into any contractual arrangement (not otherwise disclosed in this document), to receive, directly or indirectly, from any member of the Group 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 a value of £10,000 or more at the date of Admission.
- 18.3 The following fees were paid to professional advisers relating to the August 2010 Transaction: £40,952 to Merchant Securities Limited and £149,288 to Osborne Clarke. In addition, during the 12 month period prior to the date of this document:
- Merchant Securities Limited were paid £19,369 in respect of their services as the Company's former nominated adviser; and
 - Peter Waller, who resigned as the non-executive Chairman of the Company on 4 February, was paid fees totalling £25,800.
- 18.4 The information in this document that has been sourced from a third party has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by that third party, no material facts have been omitted which would render the reproduced information inaccurate or misleading. These sources include the following reports prepared by Gartner:
- (a) "Magic Quadrant for Network Intrusion Prevention Systems", published 6 December 2010; and
 - (b) "Forecast: Enterprise Security Infrastructure, Worldwide, 2008–2014", published July 2010.
- 18.5 The accounting reference date of the Company and of Top Layer is 31 December and the current accounting reference period of the Company and Top Layer will end on 31 December 2010.
- 18.6 The auditors of the Company for each of the financial years ended 31 December 2007, 2008 and 2009 were Grant Thornton UK LLP of Grant Thornton House, Melton House, Euston Square, London NW1 2EP a member of the Institute of Chartered Accountants in England and Wales. Each of these statutory accounts have been delivered to the Registrar of Companies in England and Wales. Grant Thornton's reports on the annual reports and financial statements for the years ended 31 December 2007, 2008 and 2009 were unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement, in respect of the financial statements for the years ended 31 December 2007 and 2008, under section 237(2) or (3) of the 1985 Act and, in respect of the financial year ended 31 December 2009, under section 498(2) or 498(3) of the 2006 Act.
- 18.7 The financial information set out in Part III of this document does not constitute Top Layer's financial statements for the years ended 31 December 2007, 2008 and 2009. The auditor of Top Layer for the financial year ended 31 December 2007 was McGladrey & Pullen, 80 City Square, Boston, MA 02129. The auditor of Top Layer for each of the financial years ended 31 December 2008 and 2009 was BDO USA, LLP, 100 High Street, Suite 900, Boston, MA 02110, United States a member of

BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

In certain circumstances an auditor's report includes an emphasis of matter paragraph to highlight a matter affecting the financial statements. An emphasis of matter paragraph does not affect the auditor's opinion. The auditor is required to consider adding an emphasis of matter paragraph where there is a significant uncertainty, the resolution of which is dependent upon future events and which may affect the financial statements.

The auditor's reports on Top Layer's financial statements for the years ended 31 December 2007, 31 December 2008 and 31 December 2009 were unqualified.

Whilst unqualified, the audit reports for the years ended 31 December 2007, 31 December 2008 and 31 December 2009 included an emphasis of matter, drawing the attention of readers of Top Layer's consolidated financial statements to Management's disclosures within those financial statements in respect of the recurring losses from operations, the working capital deficit and the accumulated deficit, all of which raised doubt about Top Layer's then ability to continue as a going concern. This latter issue has been addressed elsewhere in this document within the basis of preparation of the financial information for each of the two years ended 31 December 2008 and 31 December 2009 and the year ended 31 December 2007 set out in Sections B and D in Part III. Accordingly, an emphasis of matter has not been deemed necessary in the accountant's reports in this document.

- 18.8 BDO LLP has given and not withdrawn its written consent to the inclusion of its reports in Sections A and C of Part III of this document in the form and in the context in which they are included and has authorised the contents of its reports for the purposes of Schedule 2 of the AIM Rules for Companies.
- 18.9 finnCap has given and not withdrawn its written consent to the inclusion in this document of the references to its name in the form and in the context in which they appear.
- 18.10 Save as set out in this document, there are no patents or intellectual property rights, licences or industrial, commercial or financial contracts or new technological processes which are of material importance to the Group's business or profitability.
- 18.11 The Directors are unaware of any environmental issues that may affect the Enlarged Group's utilisation of its tangible fixed assets.
- 18.12 There have been no takeover offers (within the meaning of Part 28 of the 2006 Act) by third parties for any of the Company's Ordinary Shares during the last financial year and the current financial year.
- 18.13 Save as disclosed in this document, the Directors are unaware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for the financial year ending 31 December 2010 or Top Layer's prospects for the financial year ending 31 December 2010.

19. AVAILABILITY OF DOCUMENT

A copy of this document is available from the website www.corero.com.

Dated 7 February 2011

NOTICE OF GENERAL MEETING

Corero plc

(incorporated and registered in England and Wales with registered number 02662978)

NOTICE IS HEREBY GIVEN that a GENERAL MEETING of Corero plc (the “Company”) will be held at the offices of finnCap Limited at 60 New Broad Street, London EC2M 1JJ on 1 March 2011 at 11.00 a.m. to consider and, if thought fit, pass the following resolutions of which those numbered 1, 2 and 3 will be proposed as ordinary resolutions and those numbered 4 and 5 will be proposed as special resolutions:

Ordinary Resolutions

1. THAT, subject to and conditional upon the passing of resolutions 2 and 4, the acquisition by the Company of the issued share capital of Top Layer Networks, Inc. (the “Acquisition”) on the terms set out in a conditional agreement dated 7 February 2011 (the “Merger Agreement”) and made between the Company, the Principal Stockholders, Tomcat Sub and Top Layer as defined and described in an admission document sent by the Company to its shareholders dated 7 February 2011 (the “Admission Document”) be and is hereby approved and that the Directors be and are hereby authorised to effect the Acquisition with such minor modifications, variations, amendments, revisions, waivers or extensions of or to such terms and conditions as the Directors or any duly authorised committee of the Directors think fit and the Directors or any duly authorised committee of the Directors be and are hereby authorised to do all such things as they may consider necessary or desirable to complete the Acquisition.
2. THAT the Directors be generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the “Act”) to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or to convert any security into shares of the Company (such shares and rights to subscribe for or to convert any security into shares of the Company being “relevant securities”):
 - (a) in the nominal amount of £90,388.55 pursuant to the terms of the Merger Agreement for the Completion Consideration Shares (as defined in the Admission Document);
 - (b) up to a maximum nominal amount of £1,771.45 pursuant to the terms of the Merger Agreement for the Deferred Consideration Shares (as defined in the Admission Document); and
 - (c) up to a maximum nominal amount of £65,714.29 pursuant to the Placing (as defined in the Admission Document),

provided that, unless previously revoked, varied or extended, this authority shall expire on 3 October 2012 except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

3. THAT, in substitution for all existing and unexercised authorities and powers granted to the Directors prior to the date of this resolution (but in addition to any authorities and powers granted to the Directors pursuant to resolution 2 above) in accordance with section 551 of the Act and subject to and conditional on the passing of resolution 1, the Directors be generally and unconditionally authorised for the purposes of section 551 of the Act to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or to convert any security into shares of the Company (such shares and rights to subscribe for or to convert any security into shares of the Company being “relevant securities”) up to a maximum nominal amount of £158,597.05 on such terms and conditions as the Directors may determine provided that, unless previously revoked, varied or extended, this authority shall expire at the conclusion of the next annual general meeting of the Company except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

Special Resolutions

4. THAT, in accordance with section 570(1) of the Act and subject to and conditional on the passing of resolution 2, the Directors be and are hereby empowered to allot equity securities (as defined in section 560(1) of the Act) of the Company for cash, pursuant to the authority of the Directors under section 551 of the Act conferred by resolution 2 above, as if section 561(1) of the Act did not apply to such allotment provided that this power is limited to:
- (a) the allotment of 9,038,855 Completion Consideration Shares (as defined in the Admission Document);
 - (b) the allotment of up to 177,145 Deferred Consideration Shares (as defined in the Admission Document); and
 - (c) the allotment of up to 6,571,429 Placing Shares pursuant to the Placing (each as defined in the Admission Document),

and that this authority will expire on 3 October 2012 except that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

5. THAT, in substitution for all existing and unexercised authorities and powers granted to the Directors prior to the date of this resolution (but in addition to any authorities and powers granted to the Directors pursuant to resolution 4 above) in accordance with section 570(1) of the Act and subject to and conditional on the passing of resolutions 1 and 3, the Directors be and are hereby empowered to allot equity securities (as defined in section 560(1) of the Act) of the Company for cash, pursuant to the authority of the Directors under section 551 of the Act conferred by resolution 3 above, and/or by way of a sale of treasury shares for cash (by virtue of section 573 of the Act), in each case as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to
- (a) the allotment of equity securities in connection with an offer by way of a rights issue (i) to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings and (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and
 - (b) the allotment and/or sale of treasury shares for cash (otherwise than pursuant to resolution 5(a) above) of equity securities up to a maximum nominal amount of £71,360.58,

and that, unless previously revoked, varied or extended, this power shall expire at the conclusion of the next annual general meeting of the Company except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted (and treasury shares to be sold) after such expiry and the Directors may allot equity securities (and sell treasury shares) in pursuance of such an offer or agreement as if this power had not expired.

By order of the Board
Duncan Swallow
Company Secretary

Registered Office:
169 High Street
Rickmansworth
Hertfordshire
WD3 1AY

Registered in England and Wales No. 2662978

Notes:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company at 6.00 p.m. on 25 February 2011 (or if the General Meeting is adjourned, 48 hours before the time fixed for the adjourned General Meeting) shall be entitled to attend and vote at the General Meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the General Meeting.
2. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting to be held at 11.00 a.m. on 1 March 2011 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider should refer to their CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Capita Registrars Limited (CREST Participant ID: RA10), no later than 11.00 a.m. on 25 February 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

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

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

3. If you wish to attend the General Meeting in person, you should make sure that you arrive at the venue for the General Meeting in good time before the commencement of the meeting. You may be asked to prove your identity in order to gain admission.
4. A member who is entitled to attend, speak and vote at the General Meeting may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the General Meeting in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the General Meeting (although voting in person at the General Meeting will terminate the proxy appointment). A proxy form is enclosed. The notes to the proxy form include instructions on how to appoint the Chairman of the General Meeting or another person as a proxy. You can only appoint a proxy using the procedures set out in these Notes and in the notes to the proxy form.
5. To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham BR3 4TU, by no later than 11.00 a.m. on 25 February 2011.
6. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
7. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in Notes 2 and 4 to 6 above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.

