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If you have sold or otherwise transferred all of your Existing Ordinary Shares, please immediately forward this document, together with the accompanying Form of Proxy, to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold only part of your holding of Existing Ordinary Shares, please contact your stockbroker, bank or other agent through whom the sale or transfer was effected immediately.

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

The Existing Ordinary Shares are admitted to trading on AIM. Application will be made to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence on 6 July 2016. The New Ordinary Shares being issued pursuant to the Proposals will, on Admission, rank in full for all dividends and other distributions declared, made or paid on the New Ordinary Shares after Admission and will otherwise rank *pari passu* in all respects with the then issued New Ordinary Shares.

This document contains no offer of transferable securities to the public within the meaning of section 102B of the FSMA, the Act or otherwise. Accordingly, this document does not constitute a prospectus within the meaning of section 85 of the FSMA and has not been drawn up in accordance with the Prospectus Rules or approved by the FCA or any other competent authority.

Daily Internet plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 06172239)

**Proposed acquisition of System Professional Ltd,
Placing of 8,333,334 New Ordinary Shares at 60 pence per share,
Share Consolidation,
Capital Reduction,
Change of name to SysGroup plc
and
Notice of General Meeting**

Your attention is drawn to the letter from the Chairman of the Company which is set out on pages 10 to 27 of this document and which contains the Directors' unanimous recommendation that you vote in favour of the Resolutions to be proposed at the General Meeting.

Notice of a General Meeting of the Company, to be held at the offices of Kuit Steinart Levy LLP, 7th Floor, Blackfriars House, The Parsonage, Manchester M3 2JA on 5 July 2016 at 11.30 a.m., is set out at the end of this document. To be valid, the accompanying Form of Proxy for use in connection with the General Meeting should be completed, signed and returned as soon as possible and, in any event, so as to reach the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY by no later than at 11.30 a.m. on 1 July 2016. Completion and return of Forms of Proxy will not preclude Shareholders from attending and voting at the General Meeting should they so wish.

If you have any questions relating to return of the Form of Proxy, please telephone Daily Internet plc's registrars, Computershare, on 0370 707 1658 from within the UK or on +44 370 707 1658 if calling from outside the UK. Lines are open 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday (excluding UK public holidays). Calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Proposals nor give any financial, legal or tax advice.

The Directors, whose names and details are set out on page 10 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (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. A copy of this document is available at the Company's website.

Shore Capital and Corporate Limited ("**SCC**"), which is authorised and regulated by the Financial Conduct Authority, has agreed to act as nominated adviser to the Company for the purposes of the AIM Rules for Companies. Shore Capital Stockbrokers Limited ("**SCS**"), which is a member of the London Stock Exchange and is authorised and regulated by the Financial Conduct Authority, has agreed to act as broker in the United Kingdom for the purposes of the AIM Rules for Companies exclusively to the Company and no one else in connection with the Proposals. Persons receiving this document should note that, in connection with the Proposals, SCC and SCS are acting exclusively for the Company and no one else and will not be responsible to anyone, other than the Company, for providing the protections afforded to customers of SCC and SCS or for advising any other person on the transactions and arrangements described in this document. No representation or warranty, express or implied, is made by SCC or SCS as to any of the contents of this document in connection with the Proposals, or otherwise.

IMPORTANT NOTICE

Cautionary note regarding forward-looking statements

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will", or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the Directors' current intentions, beliefs or expectations concerning, among other things, the Enlarged Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the Enlarged Group's markets.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual results and developments could differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this document are based on certain factors and assumptions, including the Directors' current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Enlarged Group's operations, results of operations, growth strategy and liquidity. Whilst the Directors consider these assumptions to be reasonable based upon information currently available, they may prove to be incorrect. Save as required by law or by the AIM Rules, the Company undertakes no obligation to publicly release the results of any revisions to any forward-looking statements in this document that may occur due to any change in the Directors' expectations or to reflect events or circumstances after the date of this document.

Notice to overseas persons

The distribution of this document and/or the Form of Proxy in certain jurisdictions may be restricted by law and therefore persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Basis on which information is presented

In the document, references to "pounds sterling", "£", "pence" and "p" are to the lawful currency of the United Kingdom.

References to defined terms

Certain terms used in this document are defined and explained at the section of this document under the heading "Definitions".

All times referred to in this document are, unless otherwise stated, references to London time.

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DEFINITIONS

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

"Accounts"	the Group's report and accounts for the financial year ended 31 March 2016;
"Act"	the Companies Act 2006 (as amended);
"Acquisition"	the proposed acquisition by the Company of the entire issued share capital of Sys-Pro pursuant to the Acquisition Agreement;
"Acquisition Agreement"	the conditional agreement dated 15 June 2016 between (1) the Vendors (2) the Company (3) SCC and (4) SCS;
"Admission"	admission of the New Ordinary Shares the Placing Shares and the Consideration Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules;
"AIM"	the AIM Market operated by the London Stock Exchange;
"AIM Rules"	the AIM Rules for Companies published by the London Stock Exchange from time to time;
"Capital Reduction"	the proposed reduction of (i) £0.19 (19 pence) of paid up capital on each New Ordinary Share resulting in a new ordinary share of 1p each; and (ii) the cancellation of the Company's share premium account;
"Capital Reduction Record Date"	6.00 p.m. on 3 August 2016 or such other time and date as the Directors may determine;
"Capital Reorganisation"	the proposed Share Consolidation and Capital Reduction as described in this document;
"Company" or "Daily"	Daily Internet plc, a company incorporated and registered in England and Wales with registered number 06172239;
"Consideration Shares"	the 975,000 New Ordinary Shares to be issued and allotted to the Vendors on completion of the Acquisition as consideration pursuant to the terms of the Acquisition Agreement;
"Court" or "High Court"	the High Court of England and Wales;
"Court Order"	the order to be sought by the Company from the Court confirming the Capital Reduction;
"CREST"	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in those regulations);
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (S.I. 2001 No. 3755);

“Directors” or “Board”	the directors of the Company whose names are set out on page 10 of this document, or any duly authorised committee thereof;
“Earn-out Shares”	the shares in the capital of the Company which may be issued pursuant to the Acquisition as defined in paragraph 7.2 of the letter from the Chairman;
“Effective Date”	the date the Court Order is registered by the Registrar of Companies when the Capital Reduction will take effect pursuant to the Act;
“Enlarged Group”	the Group as enlarged by the Acquisition;
“Enlarged Share Capital”	the issued ordinary share capital of the Company as enlarged by the Placing Shares and the Consideration Shares;
“Epicor”	Epicor Software (UK) Ltd, a company incorporated and registered in England and Wales with registered number 02338274, the UK subsidiary of Epicor Software Corporation;
“Euroclear”	Euroclear UK & Ireland Limited, the operator of CREST;
“Evohosting”	18a Bridge Street Limited (formerly Evohosting Limited), a company incorporated and registered in England and Wales with registered number 05814619;
“Existing Ordinary Shares”	the 510,379,335 ordinary shares of £0.005 (0.5 pence) each in the capital of the Company in issue at the date of this document;
“FCA”	the UK Financial Conduct Authority;
“Form of Proxy”	the form of proxy for use in connection with the General Meeting, which accompanies this document;
“FSMA”	the Financial Services and Markets Act 2000 (as amended);
“Further Placing Shares”	the 5,333,334 New Ordinary Shares to be issued by the Company to investors pursuant to the Placing;
“General Meeting”	the general meeting of the Company to be held at the offices of Kuit Steinart Levy LLP, 7th Floor, Blackfriars House, The Parsonage, Manchester M3 2JA on 5 July 2016 at 11.30 a.m., notice of which is set out at the end of this document;
“Group”	the Company and its subsidiaries as at the date of this document;
“Hargreave Hale”	Hargreave Hale Limited or funds controlled by it, as applicable;
“Livingbridge”	Livingbridge VC LLP or funds controlled by it, as applicable;

“London Stock Exchange”	London Stock Exchange plc;
“Namehog”	Namehog Limited, a company incorporated and registered in England and Wales with registered number 03963376;
“Netplan”	Netplan Internet Solutions Limited a company incorporated and registered in England and Wales with registered number 04099685;
“New Ordinary Shares”	the new ordinary shares of £0.20 (20 pence) each in the capital of the Company following the Share Consolidation;
“Notice of General Meeting”	the notice convening the General Meeting which is set out at the end of this document;
“Placing”	the conditional placing of the Placing Shares by SCS, as agent on behalf of the Company, pursuant to the Placing Agreement, further details of which are set out in this document;
“Placing Agreement”	the conditional agreement dated 15 June 2016 and made between (1) the Company (2) SCC (3) SCS and (4) Mr A Adulayavichit and Mr S Gibson in relation to the Placing, further details of which are set out in this document;
“Placing Price”	60 pence per Placing Share;
“Placing Shares”	the 8,333,334 New Ordinary Shares to be issued and allotted by the Company pursuant to the Placing consisting of the VCT Placing Shares and the Further Placing Shares;
“Proposals”	the proposed Acquisition, Capital Reorganisation, Placing, change of name of the Company and Admission;
“Prospectus Rules”	the prospectus rules made by the FCA pursuant to section 73A of the FSMA;
“Q4Ex”	Q4Ex Limited a company incorporated and registered in England and Wales with registered number 08802455 and dissolved on 10 May 2016;
“Resolutions”	the resolutions set out in the Notice of General Meeting;
“SCC”	Shore Capital and Corporate Limited, the Company’s nominated adviser for the purposes of the AIM Rules;
“SCS”	Shore Capital Stockbrokers Limited, the Company’s broker for the purposes of the AIM Rules;
“Shareholders”	holders of Existing Ordinary Shares;
“Share Consolidation”	the proposed consolidation of the Company’s ordinary share capital with every 40 Existing Ordinary Shares being consolidated into 1 New Ordinary Share pursuant to Resolution 2 as set out in the Notice of General Meeting;

“Share Consolidation Record Date”	the close of business on 5 July 2016;
“Shore Capital”	SCC and/or SCS as the context requires;
“Substantial Shareholder”	a person who holds any legal or beneficial interest directly or indirectly in 10 per cent. or more of the ordinary shares of a company admitted to trading on AIM as more fully defined in the AIM Rules;
“Sys-Pro”	System Professional Ltd a company incorporated and registered in England and Wales with registered number 04754200;
“Transferred Property”	the freehold property of Sys-Pro known as The Cart Barn, Cabbages & Kings Wilderness Lance, Hadlow Down, Uckfield, East Sussex with title number ESX299628;
“UK”	the United Kingdom of Great Britain and Northern Ireland;
“VCT”	a Venture Capital Trust for the purposes of Part 6 of the Income Tax Act 2007;
“VCT Placing Shares”	the 3,000,000 New Ordinary Shares to be issued and allotted by the Company to VCTs pursuant to the Placing seeking relevant relief; and
“Vendors”	Daniel Elson, Tarquin Dunn, Wayne Emerson, Chris Moss and Johnathan Wates.

GLOSSARY

"Adjusted EBITDA"	earnings before interest, taxation, depreciation, amortisation, acquisition costs and fair value adjustments and share based payments;
"Attestation of Compliance"	a declaration of the compliance status with the Payment Card Industry Data Security Standard (PCI DSS) Requirements and Security Assessment Procedures;
"BaaS"	back-up as a service;
"CAPEX"	capital expenditure;
"DRaaS"	hosted disaster recovery as a service;
"EBIT"	earnings before interest and taxation;
"EBITDA"	earnings before interest, taxation, depreciation and amortisation;
"ERP"	Enterprise resource planning;
"FY"	financial year to 31 March;
"IaaS"	infrastructure as a service;
"Managed Security Solutions"	management by Netplan of a customer's infrastructure that is designed to protect the network, for example a firewall;
"OPEX"	operational expense;
"PaaS"	platform as a service;
"PCI DDS"	the Payment Card Industry Data Security Standard;
"PCI Council"	the PCI Security Standards Council, a global open body formed to develop, enhance, disseminate and assist with the understanding of security standards for payment account security;
"private cloud"	clouds based on shared physical hardware which is owned and operated by third-party provider;
"Professional Services"	consulting or advisory services where services are charged based on time spent by a qualified employee of the Group;
"public cloud"	a bespoke infrastructure purely dedicated to the business, hosted either on-site or at a service provider data centre;
"SaaS"	software as a service;
"Security Assessment Procedures"	a mandated set of processes and procedures issued by the PCI Security Council;
"SME"	small and medium enterprises; and
"Vmware"	virtualisation technology owned by VMware Inc and utilised by the company in allowing the company to run multiple virtual machines on a single server or cluster of servers.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2016
Announcement of the Proposals and publication of this document	15 June
Latest time and date for receipt of Forms of Proxy for the General Meeting	11.30 a.m. on 1 July
General Meeting	11.30 a.m. on 5 July
Share Consolidation Record Date	the close of business on 5 July
Admission, completion of the Acquisition, the Placing and commencement of dealings in New Ordinary Shares	6 July
CREST accounts credited	6 July
Dispatch of share certificates in respect of New Ordinary Shares	By 14 July
Capital Reduction Record Date*	the close of business on 3 August
Expected date of Court hearing to confirm the Capital Reduction*	3 August
Registration of Court Order and expected Effective Date*	4 August

* *These dates are dependent on, amongst other things, any changes which may be imposed by the Court and the date the Court confirms the Capital Reduction. The Court hearing dates may be subject to postponement by the Court.*

If any of the above dates or times should change, the revised date and/or time will be notified to Shareholders by an announcement to a Regulatory Information Service.

STATISTICS RELATING TO THE PROPOSALS

Number of Existing Ordinary Shares as at the date of this document	510,379,335
Number of New Ordinary Shares following the Share Consolidation and prior to Admission	12,759,484
Number of New Ordinary Shares to be issued pursuant to the Acquisition*	1,058,333
Number of Placing Shares to be issued	8,333,334
Enlarged Share Capital following the Acquisition and Placing	22,151,151
Placing Price	60p
Gross proceeds of the Placing	£5.0m
Market capitalisation at the Placing Price on Admission	£13.3m
Consideration Shares expressed as a percentage of the Enlarged Share Capital	4.4%
Placing Shares expressed as a percentage of the Enlarged Share Capital	37.6%
EPIC/TIDM	SYS
ISIN following the Share Consolidation	GB00BYT18182
SEDOL following the Share Consolidation	BYT1818

* *Includes 83,333 New Ordinary Shares to be issued to a consultant as consideration for provision of services to the Company in relation to sourcing the Acquisition.*

LETTER FROM THE CHAIRMAN

Daily Internet plc

(incorporated and registered in England and Wales under the Companies Act 1985 with registered number 06172239)

Directors:

John Michael Edelson (*Non-Executive Chairman*)
Christopher Neil Evans (*Chief Executive Officer*)
Julie Ann Joyce (*Finance Director*)
Robert Khalastchy (*Non-Executive Director*)

Registered office:

First Floor, Nelson House
Park Road
Timperley
Cheshire WA14 5BZ

15 June 2016

Dear Shareholder,

**Proposed acquisition of System Professional Ltd,
Placing of 8,333,334 New Ordinary Shares at 60 pence per share,
Share Consolidation,
Capital Reduction,
Change of name to SysGroup plc
and
Notice of General Meeting**

1. Introduction

The Company today announced that it has entered into a conditional agreement with the Vendors to acquire the entire issued share capital of Sys-Pro for an initial consideration of £3.9 million to be satisfied by £3.3 million in cash and through the issue of 975,000 Consideration Shares. In addition, the Company has raised £5.0 million (before expenses) through a conditional placing of 8,333,334 Placing Shares at the Placing Price. Further details of the terms of the Acquisition and the Placing are set out below under the headings "Principal terms of the Acquisition" and "Details of the Placing and the use of proceeds". To reflect the change in the composition and focus of the Company's business following the Acquisition it is also proposed to change the Company's name to SysGroup plc.

It is also proposed that the Company effects a Capital Reorganisation whereby every 40 Existing Ordinary Shares will be consolidated into one New Ordinary Share. Subsequent to the Share Consolidation the Company will apply to the Court to effect the Capital Reduction whereby the nominal value of the New Ordinary Shares will be reduced from 20 pence to 1 penny and the Company's share premium account will be cancelled in order to create distributable reserves to reduce the Company's retained losses so that dividends can be declared in respect of profits of the Company going forward. Further details of the Capital Reorganisation are set out in paragraph 12 below.

The proposed Acquisition and Placing are conditional, *inter alia*, on the passing of the Resolutions and on Admission. The Share Consolidation is conditional on the passing of the Resolutions and the Capital Reduction is conditional of the passing of the Resolutions and the approval of the Court. The Placing has not been underwritten. It is expected that Admission will become effective and dealings in the New Ordinary Shares will commence on AIM on 6 July 2016.

The main purpose of this document is to set out the reasons for, and details of, the Proposals, to explain why the Directors consider that they are in the best interests of the Company and its Shareholders as a whole, and to recommend that you vote in favour of the Resolutions to be proposed at the General Meeting, notice of which is set out at the end of this document.

2. Information on Daily

Daily was founded in 2006 as an internet hosting services provider focused on delivering a broad range of mass market products and hosting services to SMEs and individuals in the UK ("**SME Mass Market**"). In January 2014, the Company acquired Namehog and complimented this with the subsequent acquisition of Evohosting in August 2014.

The Group entered into the managed hosting market through the acquisition of Netplan in October 2013. It subsequently acquired Q4Ex in December 2014 (which now trades under the Netplan brand).

For the year ended 31 March 2014, the SME Mass Market division of Daily accounted for 71 per cent. of the Group's revenues with managed hosting contributing 29 per cent. of revenues. In December 2014 the Board made the decision to focus on the business of managed hosting due to its belief that managed hosting offered the highest growth opportunity and the potential for increased margins and longer contracts providing greater revenue visibility. For the year ended 31 March 2016 the revenue split had altered with managed hosting contributing 53 per cent. of revenues with SME Mass Market providing 47 per cent. The change has largely been driven by the differing growth rates in managed hosting compared to SME Mass Market; for the year ended 31 March 2016 the SME Mass Market grew revenues by 10 per cent. whilst managed hosting grew 36 per cent.

2.1. Managed Hosting

The managed hosting segment has become the core focus of the Group. Netplan has particular sector strength in certain key verticals including the Financial Services and Merchant & Distribution sectors. Netplan is established as a PCI Level 1 service provider and maintains an Attestation of Compliance to v3.0, which adheres to PCI DSS as set by the PCI Council, which covers Infrastructure and Network, Co-Location, Systems Security Services and IT Support.

Following the acquisition and incorporation of Q4Ex under the Netplan brand, Netplan has strong vertical presence within the Merchant & Distribution sector. The Board believes this is as a result of its strong technical and commercial knowledge of a sector leading ERP application. In addition, Netplan is partnered with Epicor, an ERP provider to the manufacturing, distribution and retail sectors and is their UK hosting partner for a subset of Epicor applications including Epicor BisTrack, a sector ERP application. Netplan's ability to provide Professional Services coupled with IaaS for Epicor BisTrack, provides Netplan with a competitive advantage as a one-stop-shop service provider.

The Board believes that with the on-going transition from on-premise IT solutions to both public and private cloud services, and an increasing trend of IT outsourcing in general, Netplan is ideally placed as an established managed services provider to secure future contracts in multiple verticals that translate to contracted monthly recurring revenue.

2.2. SME Mass Market

The SME Mass Market division consists of the Daily.co.uk brand, Namehog and Evohosting. A range of 'self-serve' products are offered by this division including:

- Domain Name Registration, e.g. register a Register a ".com" or other suffix;
- Shared Server Hosting, e.g. Host multiple websites from a single server;
- Virtual Private Servers (VPS), e.g. Slice a server into multiple smaller ones;
- Dedicated Servers e.g. Servers that are not shared by other customers;
- Email Mailboxes e.g. Allow people to email from their domain name, e.g. bob@domain.com; and
- Value Added Services e.g. Small bolt on services, e.g. SSL certificates for securing website.

2.3. *Customer concentration*

The Board has continued to seek to diversify the Group's customer base by sector and contribution. As at the year ended 31 March 2016 ("**FY 2016**") the Group's the top ten managed hosting customers represent less than 50 per cent. of the Group's revenues in FY 2016 and are from a variety of sectors including Financial Services, Merchant & Distribution and SaaS. The customers are predominantly on contracts with a term of more than two years and are provided with a variety of services including private and public cloud services, IaaS and PCI DSS services. The Group has managed to maintain high levels of customer retention within its managed hosting division. For FY 2016, customer churn in managed hosting was less than 3 per cent. (by existing revenue, excluding new revenue contracted during FY 2016).

3. Current trading and prospects

Shareholders' attention is drawn to the announcement made on 1 June 2016 setting out the final results for the year ended 31 March 2016. The Group generated revenues of £4.8 million (FY 2015: £3.9 million), with Adjusted EBITDA of £0.7 million (more than 50 per cent. ahead of the previous financial year (FY 2015: £0.4 million)).

Trading since 1 April 2016 has been in line with management expectations. During FY 2016, the Company repaid the principal amounts outstanding under its existing convertible loan notes, leaving the Group in a net cash position. With the slimming down of cost base in the Group's SME Mass Market division, the continued growth in the managed hosting business along with the Group's cash generation the Board believes that the Group is well placed going into the 2016/2017 financial year with a strong foundation for future growth.

4. Information on Sys-Pro

Sys-Pro was founded in 2003 as a Value Added Reseller ("**VAR**") reselling hardware and software. In 2008, the company launched managed services and began its transition from VAR to managed services in line with the market trends, described further in paragraph 6.1 below, from on premise IT infrastructure to externally hosted and managed IT services. The company is headquartered in East Sussex with an additional office in London, which opened in 2012.

Sys-Pro aims to provide a consultation led sales approach by offering strategic advisory services to both new and existing customers in the public and private sectors with the view to providing an end-to-end IT service for its clients. This is achieved by initially undertaking an analysis of a client's current IT infrastructure before designing and implementing a new system design for which it has the ability to provide on-going managed services tailored to the needs of each client. Sys-Pro's management team have taken this approach with a view to generating long term value creation through strong customer relationships to underpin continued growth. In line with the general market transition, the Directors believe that cloud-based services such as those offered by Sys-Pro are forming an increasingly important part of the managed services offering to clients.

Sys-Pro has the capability to provide an on-premise deployment, a cloud-based service model, or a combination of these. In addition Sys-Pro can provide clients with a standalone consultancy service which can lead to a delivery orientated project entailing the implementation of a new hardware and software platform, deployed either on premise or possibly hosted remotely. In such cases Sys-Pro is also able to provide managed cloud services such as IaaS or PaaS. Finally, Sys-Pro can offer IT Support services which can range from basic remote user IT support through to on-site, fully outsourced IT service provision. The full suite of Sys-Pro's services are set out in figure 1 below:

Figure 1

Managed Services		
Consulting	Cloud Services	IT Support
Envisioning	IaaS	Service desk management
Planning	PaaS	Network support
Designing & Building	DRaaS	User IT support
Testing	BaaS	IT infrastructure support
Implementing	Co-Location	Full outsourced IT support

The Board believes that Sys-Pro has a strong presence within the Education, Charity and Not for Profit verticals supported by an experienced management team resulting in low levels of client churn and a balanced revenue mix of managed services and consulting.

4.1. *Cloud services*

Sys-Pro offers a wide range of options for remote IT system hosting. This ranges from a simple 'Co-Location' proposition to a fully-virtualised, multi-tenanted environment where both IT infrastructure and software are provided as a service. Allied to this, the data centre facilities employed by the company are used to provide back-up and disaster recovery services to its clients, whether their systems are cloud-hosted or otherwise.

4.2. *IT support*

Sys-Pro provides a range of IT Support services to both its hosted clients and customers with a dedicated on-premise IT infrastructure. The service desk team is structured to provide coordinated IT support across all types of client need. IT Support services include:

- Network monitoring services
- Manned IT helpdesk
- Management reporting
- Full outsource IT support

The IT Support function operates standard hours of 8am to 8pm Monday to Friday but can be extended to 24/7 coverage to fit in with the client's requirements.

Sys-Pro is also a Microsoft Managed Partner (one of circa 130 in the UK) enabling Sys-Pro to deliver training to its clients, based on the official Microsoft curriculum for Microsoft certifications.

4.3. *VAR*

Sys-Pro generates 48.9 per cent. of its revenue as a value added reseller. A substantial proportion of such sales are to clients who also procure professional and/or managed services and are often part of a more wide-ranging client engagement, involving the consulting team.

4.4. *Customer concentration*

Sys-Pro has diversified its customer base with specialisms in healthcare and charity/not for profit. In the year ended 31 March 2016, the top ten customers represented less than 40 per cent. of Sys-Pro's revenues. These customers are provided with a variety of services including virtual desktop, managed

services, IaaS and DRaaS. The Group has managed to maintain high levels of customer retention within its managed hosting division. For FY 2016, customer churn of annual recurring revenue was 3.4 per cent.

4.5. Property

Sys-Pro occupies sites in both London and Sussex.

The London property is occupied under a five year lease which commenced on 26 July 2012 and will automatically expire on 25 July 2017 with annual rent of £55,000 (with insurance rent and service charge paid as further rent).

The company also currently owns part of the premises occupied in Sussex. This freehold property is being transferred to a nominee company owned by the Vendors with effect from completion of the Acquisition, details of which are set out in paragraph 7.1 below. Sys-Pro is then being granted a full repairing and insuring lease in respect of the Transferred Property for a term of three years with effect from completion of the Acquisition, with Sys-Pro having an option to renew this lease for a further two years. The annual initial rent is £19,125, with a rent review on renewal.

The other part of the property in Sussex occupied by Sys-Pro is pursuant to a 15 year lease which commenced on 5 April 2006 and is due to expire on 5 April 2021. The rent payable is currently £23,500 per year.

5. Historic financial results of Sys-Pro

Set out in figure 2 below are the unaudited financial results of Sys-Pro for the years ending 31 March 2014 to 2016:

Figure 2

£'000	2014 ⁽¹⁾	2015 ⁽¹⁾	2016 ⁽¹⁾
Revenue	4,673	4,883	5,220
Gross Profit	2,327	2,899	3,096
EBITDA	182	919	968
Regular dividends ⁽²⁾	(263)	(300)	(329)
Normalised EBITDA ⁽²⁾	(81)	619	639

Note:

(1) Source: Filed unaudited statutory accounts

(2) The Vendors receive a significant proportion of their income in the form of regular monthly dividends and the cost of these dividends has been taken into account in calculating a "normalised" EBITDA.

5.1. Revenue by division

Set out in figure 3 below is the breakdown of revenue generation by division extracted from the unaudited financial results for the years ending 31 March 2014 to 2016:

Figure 3

£'000	2014 ⁽¹⁾	2015 ⁽¹⁾	2016 ⁽¹⁾
VAR	2,716	2,407	2,553
Managed Services	1,108	1,592	1,819
Consultancy	849	884	848
Total	4,673	4,883	5,220

Note:

(1) Source: Management accounts

6. Background and reasons for the Acquisition

6.1. Background

The managed hosting segment has become the Group's core focus since the acquisition of Netplan in October 2013, subsequently supplemented by the acquisition of Q4Ex in December 2014. Managed hosting includes a range of cloud offerings including design, implementation, control and managing environments and solutions for the Group's customers.

The Board believes that the market is currently experiencing a number of trends which indicate that the shift to cloud delivered solutions and outsourcing in general will remain a key future focus points for customers. The Board believes that growing levels of customer confidence and acceptance of cloud based systems are drivers behind increased client adoption of cloud hosted solutions and a move away from on-premise servers enabling companies to move from CAPEX investment to on-going OPEX. In parallel with a broader transition to cloud based solutions, the Board has noted increased adoption rates by its clients of the public cloud. This shift in the market has enabled the Group to extend its product mix to offer public cloud based solutions when proposing a new solution to a customer, particularly concerning business continuity. Previously, for smaller business, the private cloud solution could prove to be cost prohibitive.

6.2. Rationale and benefits

The Board believes the Acquisition provides an opportunity to harness these market trends and enable the Group to continue to drive growth in managed hosting. The Board believes the Acquisition will provide a number of benefits to the Group:

6.2.1. Accelerate the Group's growth:

- Provides increased access to markets in managed services, the Group's core service offering;
- Anticipated to generate economies of scale through reduced infrastructure costs;
- Proven consulting model that accelerates managed services business;
- Complementary technical ability supporting larger managed services projects; and
- Leverage Sys-Pro's specialist Microsoft capabilities providing an expansion to the Group's technical capabilities.

6.2.2. Diversification

- Entry into new sector verticals, in particular healthcare, education and charity/not for profit;
- Expands the Group's geographic reach; and
- Further diversifies the already low customer revenue concentration.

6.2.3. Opportunity for further value creation

- Continues and accelerates conversion of Sys-Pro's VAR customers to higher margin contracted managed services.
- Significant expansion of Sys-Pro's existing service offering through Netplan, which will be offered to existing Sys-Pro customers, and visa-versa.
- Increase in complementary skills of Netplan and Sys-Pro and increased resources should allow the Group to compete for higher value projects.

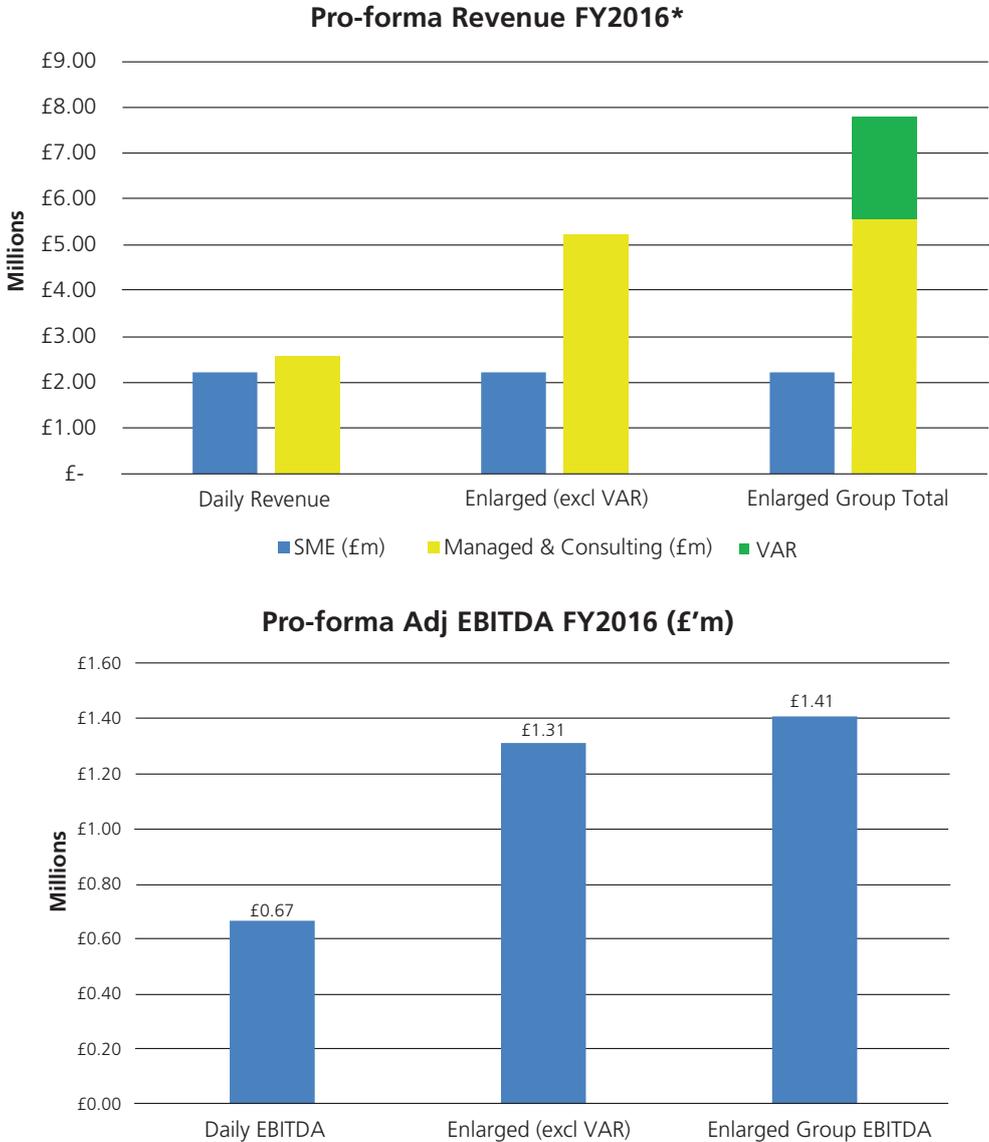
6.2.4. Incremental Synergies

- Netplan has spare capacity on its network and rack space in datacentres. It is envisaged that Sys-Pro would benefit from this capacity and not incur any significant additional network or datacentre costs for a period of at least one year from completion of the Acquisition. In addition, there may be synergies realisable by combining technical support teams, network operations centre and other combined functions such as finance and marketing.
- The Board believes that the Enlarged Group should to also be able to negotiate improved volume discounts with suppliers of hardware and commodities, such as bandwidth and power.

6.3. Transformation in numbers

The Board believes the Acquisition will transform the make-up of the Group’s revenues. Set out in figure 4 below are the pro forma historical financials had Sys-Pro formed part of the Group during FY 2016:

Figure 4



Note:
*Based from unaudited management information from Sys-Pro

7. Principal terms of the Acquisition

Under the terms of the Acquisition Agreement, the Company has conditionally agreed to acquire Sys-Pro from the Vendors, for an initial consideration of £3.9 million to be satisfied as to £3,315,000 in cash and £585,000 by the issue of 975,000 New Ordinary Shares (being the Consideration Shares) representing 4.4 per cent. of the Enlarged Share Capital (the "**Initial Consideration**"). The Acquisition Agreement is conditional, *inter alia*, on the passing of the Resolutions and Admission. In addition, the Company intends to issue 83,333 New Ordinary Shares at the Placing Price to a consultant as consideration for provision of services to the Company in relation to the Acquisition.

7.1. Post completion adjustment

The Initial Consideration is subject to adjustment following Admission through the preparation and agreement/determination of accounts drawn up as at the date of Admission to confirm Sys-Pro's cash balance and debt and tying this in with a normalised working capital level.

As part of this adjustment, the Transferred Property will be afforded a net cash value of £282,185 less any sum required to redeem the mortgage on the Transferred Property on completion within the completion balance sheet, resulting in a positive adjustment payment due by the Company. The £282,185 value afforded to the Transferred Property will be paid by the Company direct to Sys-Pro on behalf of and at the direction of the Vendors in satisfaction of the purchase price for the Transferred Property payable by the purchasing nominee company owned by them.

7.2. Earn-out Consideration

Under the Acquisition Agreement further contingent consideration of up to a maximum of £1.865 million may be payable subject to the achievement of certain performance criteria ("**Earn-out Consideration**"). Payment of the Earn-out Consideration is based upon the financial performance of Sys-Pro for the financial years ending 31 March 2017 ("**FY 2017**") and 31 March 2018 ("**FY 2018**"). Upon achievement of the financial performance criteria, set out below, the Earn-out Consideration will be satisfied as to 85 per cent. in cash and as to 15 per cent. through the issue of shares ("**Earn-out Shares**"). The Earn-out Shares will be issued at the Placing Price.

7.3. Earn out mechanism

To the extent that Sys-Pro generates an EBIT that is equal to or more than £850,000 ("**Base Threshold**") and less than £950,000 in FY 2017 the Company shall pay the Vendors a fixed further amount of £815,000 ("**Additional Consideration**"). If the EBIT generated by Sys-Pro in FY 2017 is less than the Base Threshold, the Additional Consideration is reduced by an amount equal to six times the shortfall, such that should Sys-Pro generate an EBIT less than £714,166.67, no Additional Consideration would be due.

Should Sys-Pro generate an EBIT in FY 2017 greater than £950,000 (the "**Outperformance Threshold**") the Company shall pay the Vendors further consideration equal to three times the excess EBIT of the Outperformance Threshold (the "**Excess Sum**"). The Excess Sum is capped at £1,050,000 which is reached on Sys-Pro achieving an EBIT of £1,300,000.

7.4. "EBIT Credit" incentive system

In order to incentivise the Vendors to focus on generating long term contracted revenue in managed services in calculating any Earn-out Consideration due an "EBIT Credit" will be added to the underlying EBIT achieved in FY 2017 equating to 25 per cent. of the value of any revenue generated for FY 2018 from any new contract entered into, extension or upsell of an existing managed hosting customer during FY 2017 with a duration of two years or more. Contracts qualifying for an "EBIT Credit" will be agreed quarterly between the Company and the Vendors to ensure they satisfy criteria. Payment of any Earn-out Consideration due as a result of contracts for which an "EBIT Credit" is granted will be deferred until receipt of the associated revenue on completion of FY 2018.

To the extent that the Vendors do not achieve the Base Threshold in FY 2017, after taking into account any "EBIT Credits" due, the Vendors will have the opportunity to achieve the Additional Consideration if they exceed the Base Threshold in respect of the underlying EBIT performance for FY 2018. No "EBIT Credits" can be added to the FY 2018 EBIT in calculating whether any Additional Consideration is due. No payment of Excess Sum will be crystallised in respect of the financial performance of Sys-Pro in FY 2018.

7.5. *Lock in and orderly market arrangements*

Under the terms of the Acquisition Agreement, the Vendors have entered into an irrevocable undertaking not to dispose (save in certain specified circumstances) of any interest in their Consideration Shares for a period of one year from Admission and for a period of one year from the date of issue in respect of their Earn-out Shares (in each case, the "**Lock-in period**").

The Vendors have also undertaken that they will not dispose of any interest in Consideration Shares or Earn-out Shares for a period of 12 months following expiry of the relevant Lock-in period unless such disposal is effected through Shore Capital.

8. Details of the Placing and use of proceeds

The Company has conditionally raised approximately £5.0 million (before commissions and expenses) through the conditional placing of the Placing Shares at the Placing Price. The Placing Shares, when issued, will represent approximately 37.6 per cent. of the Company's Enlarged Share Capital immediately following Admission. The Placing Shares will rank in full for all dividends with a record date on or after the date of Admission and otherwise equally with the New Ordinary Shares in issue from the date of Admission. It is expected that the Placing Shares will be admitted to trading on AIM on 6 July 2016.

The VCT Placing shares will be issued to investors seeking to benefit from the tax advantages pursuant to the VCT legislation. The Company has obtained advance assurance from HMRC that the VCT Placing Shares will constitute a qualifying holding for VCTs.

The Placing (which is not being underwritten) is conditional, amongst other things, upon:

- (a) the Placing Agreement becoming unconditional in all respects (save for Admission) and not having been terminated in accordance with its terms prior to Admission;
- (b) the Resolutions set out in the Notice of General Meeting forming part of this Circular being approved by the Shareholders (other than Resolution 5 relating to the proposed change of name); and
- (c) Admission of the Placing Shares becoming effective on or before **8.00 am on 6 July 2016** or such later date as the Company and Shore Capital may agree, being no later than **8.00 am on 31 July 2016**.

8.1. *Dilution*

Following the issue of the Placing Shares and Consideration Shares pursuant to the Placing and Acquisition, a Shareholder who is not participating in the Placing will suffer a dilution of approximately 42.4 per cent. to his economic interests in the Company.

8.2. *The Placing Agreement*

Pursuant to the terms of the Placing Agreement, Shore Capital has conditionally agreed to use its reasonable endeavours, as agent for the Company, to procure subscribers for the Placing Shares with certain institutional and other investors.

The Placing Agreement contains warranties from the Company in favour of Shore Capital in relation to, *inter alia*, the accuracy of the information in this document and other matters relating to the Company, Sys-Pro and their respective businesses. In addition, the Company has agreed to indemnify Shore Capital in relation to certain liabilities they may incur in respect of the Placing. Shore Capital has the right to terminate the Placing Agreement in certain circumstances prior to Admission, in particular, in the event of a material breach of the warranties given in the Placing Agreement, the failure of the Company to comply in any material respect with its obligations under the Placing Agreement, the occurrence of a force majeure event which in Shore Capital's opinion may be material and adverse to the Company or the Placing, or a material adverse change affecting the financial position or business or prospects of the Company.

8.3. *Settlement and dealings*

Application will be made to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence on 6 July 2016.

The New Ordinary Shares being issued pursuant to the Proposals will, on Admission, rank in full for all dividends and other distributions declared, made or paid on the New Ordinary Shares after Admission and will otherwise rank *pari passu* in all respects with the then issued New Ordinary Shares.

8.4. *Use of proceeds*

The Directors intend that the net proceeds of the Placing will be used to satisfy the initial cash consideration due under the Acquisition agreement and for general working capital purposes of the Enlarged Group. The placing proceeds resulting from the VCT Placing Shares will only be applied for working capital or other qualifying purposes and not to fund the Acquisition.

9. **Working Capital**

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

10. **VCT Status**

The Board understands that Placing Shares in the Company should represent a "qualifying holding" for the purposes of investment by VCTs, and the Company has obtained advance assurance of this from HMRC. The continuing status of the New Ordinary Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, on the New Ordinary Shares being held as a "qualifying holding" for VCT purposes throughout the period of ownership. Neither the Company nor the Directors give any warranty, representation or undertaking that any VCT investment in the Company will remain a qualifying holding.

11. **Pro forma statement of net assets**

The following unaudited pro forma statement of net assets of the Enlarged Group (the "**pro forma financial information**") has been prepared to illustrate the effect on the consolidated net assets sheet of the Enlarged Group as if the Acquisition and Placing had taken place on 31 March 2016.

The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Enlarged Group's actual financial position or results.

The pro forma financial information is based on the consolidated net assets of the Group as at 31 March 2016, set out in the Accounts which were published on 9 June 2016, and has been prepared in a manner consistent with the accounting policies adopted by the Company in preparing the Accounts and on the basis set out in the notes set out below.

	<i>Adjustments</i>				<i>Pro forma net assets of the Group</i>
	<i>The Group as at 31 March 2016 (note 1) £'000</i>	<i>Sys-Pro (adjusted) as at 31 March 2016 (note 2) £'000</i>	<i>Acquisition of Sys-Pro (notes 3,4,5) £'000</i>	<i>Net placing proceeds (note 6) £'000</i>	
Assets					
Non-current assets					
Goodwill	4,454	—	5,602	—	10,056
Intangible assets	1,329	—	—	—	1,329
Property, plant and equipment	450	494	(282)	—	662
	6,233	494	5,320	—	12,047
Current assets					
Trade and other receivables	598	1,234	—	—	1,832
Cash and cash equivalents	513	170	(3,578)	4,523	1,628
	1,111	1,404	(3,578)	4,523	3,460
Total assets	7,344	1,898	1,742	4,523	15,507
Liabilities					
Non-current liabilities					
Secured bank loans	—	54	(54)	—	—
Obligations under finance leases	91	53	—	—	144
Contingent consideration due on acquisitions	435	—	1,865	—	2,300
Deferred taxation	242	—	—	—	242
	768	107	1,811	—	2,686
Current liabilities					
Trade and other payables	718	920	—	—	1,638
Deferred income	707	259	—	—	966
Secured bank loans	—	11	(11)	—	—
Other loans	105	—	—	—	105
Obligations under finance leases	111	53	—	—	164
	1,641	1,243	(11)	—	2,873
Total liabilities	2,409	1,350	1,800	—	5,559
Net assets	4,935	548	(58)	4,523	9,948

Notes:

1. The net assets of the Group at 31 March 2016 have been extracted without material adjustment from the Accounts.

Adjustments:

2. The net assets of Sys-Pro are based on the unaudited statutory accounts of Sys-Pro for the year ended 31 March 2016 adjusted to conform with the Group's accounting policies as set out below:

	<i>Sys-Pro as at 31 March 2016 Note 2a £'000</i>	<i>Conform accounting policies Note 2b £'000</i>	<i>Sys-Pro (adjusted) at 31 March 2016 £'000</i>
Assets			
Non-current assets			
Property, plant and equipment	380	114	494
	380	114	494
Current assets			
Trade and other receivables	1,234	—	1,234
Cash and cash equivalents	170	—	170
	1,404	—	1,404
Total assets	1,784	114	1,898
Liabilities			
Non-current liabilities			
Secured bank loans	54	—	54
Obligations under finance leases	—	53	53
	54	53	107
Current liabilities			
Trade and other payables	920	—	920
Deferred income	259	—	259
Secured bank loans	11	—	11
Obligations under finance leases	—	53	53
	1,190	53	1,243
Total liabilities	1,244	106	1,350
Net assets	540	8	548

- 2a. The net assets of Sys-Pro have been extracted from the unaudited statutory accounts of Sys-Pro for the year ended 31 March 2016 without material adjustment.
- 2b. Sys-Pro accounts for certain lease payments as operating leases. Under Group accounting policies these would be accounted for as finance leases. An adjustment has been made to include the depreciated cost of these assets in property, plant and equipment and the associated liability in obligations under finance leases.

3. Adjustments have been made to reflect the estimated intangible assets arising on the acquisition of Sys-Pro.

For the purposes of this pro forma information, no adjustment has been made to the separate assets and liabilities of Sys-Pro to reflect their fair value. The difference between the net assets of Sys-Pro as stated at their book value at £548,000 and the estimated consideration has therefore been presented as a single value in "Goodwill". The net assets of Sys-Pro will be subject to a fair value restatement as at the effective date of the transaction. Actual intangible assets and goodwill included in the Group's next published financial statements may therefore be materially different from that included in the pro forma information.

The maximum consideration payable for Sys-Pro, on the basis that the earn-out is paid in full, is £5.765 million prior to the post-completion adjustment (estimated to be £385,000 based on the balance sheet of Sys-Pro at 31 March 2016). The actual value of the Earn-out Consideration to be included in the Company's future published consolidated financial statements will depend on the future trading results of Sys-Pro, which are uncertain. For the purposes of this pro forma financial information, no adjustment has been made to the fair value of the Earn-out Consideration to take account of the potential outcomes and an appropriate discount rate. The Earn-out Consideration of £1,865,000, included in the pro forma financial information is the maximum Earn-out Consideration payable. The actual value of the Earn-out Consideration that will be included in the Company's future published consolidated financial statements may therefore be materially different from that included in the pro forma financial information.

	<u>£'000</u>
Initial Consideration payable in cash	3,315
Initial Consideration payable in Company shares	585
Maximum Earn-Out Consideration payable in cash	1,585
Maximum Earn-Out Consideration payable in Company shares	280
	<hr/>
Maximum consideration excluding any post-completion adjustment	5,765
Estimated post-completion adjustment to Initial Consideration based on Sys-Pro balance sheet at 31 March 2016	385
	<hr/>
Total consideration	6,150
Book value of net assets of Sys-Pro as at 31 March 2016	(548)
	<hr/>
Estimated intangible assets arising on the Transaction	5,602
	<hr/>

The estimated post-completion adjustment to the Initial Consideration is has been calculated as follows:

	<u>£'000</u>
Net cash in Sys-Pro Balance Sheet at 31 March 2016	146
Additional net cash following the acquisition of the Transferred Property	217
Difference between working capital in Sys-Pro Balance sheet at 31 March 2016 and agreed normalised working capital	22
	<hr/>
Estimated post-completion adjustment to Initial Consideration	385
	<hr/>

The estimated post completion adjustment to the Initial Consideration included above is based on Sys-pro's balance sheet as at 31 March 2016. The actual value of the adjustment that will be included in the Company's future published consolidated financial statements will be based on the amounts determined through the preparation of accounts drawn up as at the date of Admission and may be materially different from that included in the pro forma financial information.

4. Adjustments have been made to reflect the purchase of the Transferred Property by the Vendors for £282,185 immediately after Admission, as described in paragraph 7.1, and the repayment of the associated mortgage (£65,000).
5. The decrease in cash comprises

	<i>£'000</i>
Initial consideration payable in cash	3,315
Estimated post-completion adjustment to Initial Consideration based on Sys-Pro balance sheet at 31 March 2016	385
Estimated transaction costs (related to the Acquisition)	95
Net increase in cash arising from the acquisition of the Transferred Property (£282,185) and repayment of associated mortgage (£65,000)	(217)
Decrease in cash	3,578
6. The Placing is estimated to raise net proceeds of £4.5 million (£5 million gross proceeds less estimated expenses of £477,000).
7. The Capital Reorganisation (described in paragraph 12) will not effect the net assets of the Enlarged Group.
8. No account has been taken of the financial performance of the Group or Sys-Pro since 31 March 2016 nor of any other event save as disclosed above.

12. Capital Reorganisation

It is also proposed that the Company effects a Capital Reorganisation whereby, first, every 40 Existing Ordinary Shares be consolidated into one New Ordinary Share and then a capital reduction be effected to reduce the paid up amount on each New Ordinary Share by £0.19 (19 pence) and the associated nominal value of each New Ordinary Share to £0.01 (1 penny) with the Company's share premium account also being reduced and cancelled in order to create distributable reserves to reduce the Company's retained losses so that dividends can be declared in respect of profits of the Company going forward. Further details of the Capital Reorganisation are set out below.

12.1. Share consolidation

As at the date of this document, the Company has 510,379,335 Existing Ordinary Shares in issue and the mid-market price of each Existing Ordinary Share as at the close of business on 14 June 2016 was £0.0165 (1.65 pence). The Directors believe that the Share Consolidation is necessary in order to increase the marketability of the Company's shares through the creation of a higher price per share.

The Board is therefore of the view that it would benefit the Company and its Shareholders to reduce the number of Existing Ordinary Shares in issue (with a resulting adjustment in the market price of such shares) by consolidating the Existing Ordinary Shares on the basis of:

40 Existing Ordinary Shares becoming one New Ordinary Share

Upon implementation of the Share Consolidation, Shareholders on the register of members of the Company on the Share Consolidation Record Date will hold one New Ordinary Share for every 40 Existing Ordinary Shares they held on the Share Consolidation Record Date. The proportion of the issued ordinary share capital of the Company held by each Shareholder following the Share Consolidation will, save for fractional entitlements and the issue of ordinary shares pursuant to the exercise of any outstanding options or warrants granted by the Company, the Placing and the Acquisition, be unchanged.

Holders of fewer than 40 Existing Ordinary Shares will not be entitled to receive a New Ordinary Share following the Share Consolidation. Shareholders with a holding in excess of 40 Existing Ordinary Shares, but which is not exactly divisible by 40, will have their holding of New Ordinary Shares rounded down to the nearest whole number of New Ordinary Shares following the Share Consolidation. Fractional entitlements, whether arising from holdings of fewer or more than 40 Existing Ordinary Shares, will be sold in the market and the proceeds will be retained for the benefit of the Company. Other than the change in nominal value, the New Ordinary Shares arising on implementation of the Share Consolidation will have the same rights as the Existing Ordinary Shares, including in respect of voting rights, entitlement to dividends and other rights. Further (and ignoring the effect of fractional entitlements), although the Share Consolidation will reduce the number of shares held by each Shareholder by a factor of 40, the Share Consolidation should not, by itself, affect the market value of their aggregate shareholding.

The Existing Ordinary Shares have been admitted to CREST. Application will be made for the New Ordinary Shares to be admitted to CREST, all of which may then be held and transferred by means of CREST. It is expected that the New Ordinary Shares arising as a result of the Share Consolidation in respect of Existing Ordinary Shares held in uncertificated form, i.e. in CREST, will be credited to the relevant CREST accounts on 6 July 2016 and that definitive share certificates in respect of the New Ordinary Shares arising as a result of the Share Consolidation from Existing Ordinary Shares held in certificated form will be despatched to relevant Shareholders within 10 business days of completion of the Share Consolidation. No temporary documents of title will be issued. Share certificates in respect of Existing Ordinary Shares will cease to be valid at close of business on 5 July 2016 and, pending dispatch of share certificates in respect of New Ordinary Shares will be certified against the register. The Share Consolidation Record Date is 5 July 2016.

The effect of the Share Consolidation will be to reduce the number of shares in issue from 510,379,360 (after the issue to the company secretary of an additional 25 Existing Ordinary Shares for the purpose of effecting the Share Consolidation, given that the number of Existing Ordinary Shares in issue is not divisible by 40) to 12,759,484 and to increase the nominal value of the Company's shares from £0.005 (0.5 pence) to £0.20 (20 pence). However, the nominal share capital of each New Ordinary Share will then be reduced again to £0.01 (1 penny), following the Capital Reduction, described in paragraph 12.2 below, becoming effective.

The ISIN of the New Ordinary Shares will be GB00BYT18182 following the Share Consolidation.

12.2. *Capital Reduction*

The Company has accumulated retained losses amounting as at 31 March 2016 to £5,447,334.67. Therefore, although the Group is now trading profitably the Company does not and will not for the foreseeable future have sufficient distributable reserves to declare a dividend to Shareholders. The Directors therefore propose that the Capital Reduction be effected in order to create reserves which are distributable to reduce the Company's retained losses so that dividends can be declared in respect of profits of the Company going forward.

Pursuant to the Capital Reduction, it is proposed that:

1. the paid up capital in respect of each New Ordinary Share be reduced by £0.19 (19 pence) with the nominal amount of each New Ordinary Share becoming an ordinary share of £0.01 (1 penny) each;
2. the share premium account (including the premium in respect of the Placing Shares and Consideration Shares) of the Company be cancelled; with
3. the amounts by which the paid up capital and share premium account are so reduced being credited to a reserve which is distributable.

The nominal value of the Company's shares will be reduced from £0.20 (20 pence) to £0.01 (1 penny) once the Capital Reduction takes effect.

In addition to the approval by the Shareholders which is being sought at the General Meeting through Resolution 3, the Capital Reduction requires the approval of the Court. Accordingly, following approval of the Capital Reduction by Shareholders, an application will be made to the Court in order to confirm and approve the Capital Reduction. The Capital Reduction, if approved by the Court, will create realised profits of £10,250,042.65 which will be applied in eliminating the accumulated deficit on the Company's profit and loss account.

In seeking the Court's approval of the Capital Reduction, the Court is likely to require protection for the creditors (including contingent creditors) of the Company whose debts remain outstanding on the relevant date, except in the case of creditors who have consented to the Capital Reduction. Any such creditor protection may include seeking the consent of the Company's creditors to the Capital Reduction or the provision by the Company to the Court of an undertaking to deposit a sum of money into a blocked account created for the purpose of discharging the non-consenting creditors of the Company as at the Effective Date, or not to distribute reserves arising upon or following the Capital Reduction until such creditors have been discharged.

It is anticipated that the initial directions hearing in relation to the Capital Reduction will take place on 21 July 2016, with the final Court Hearing expected to take place on 3 August 2016 and the Capital Reduction becoming effective on the following day, after the necessary registration of the Court Order at Companies House has taken place.

Shareholders should note that the Capital Reduction itself will not involve any distribution or repayment of capital or share premium by the Company and will not reduce the underlying net assets of the Company. The distributable reserves arising from the Capital Reduction will, subject to the terms of any undertakings required by the Court as explained above, support the Company's ability to pay dividends, should circumstances in the future make it desirable to do so.

The Directors reserve the right to abandon or to discontinue (in whole or in part) the application to the Court in the event that the Board considers that the terms on which the Capital Reduction would be (or would be likely to be) confirmed by the Court would not be in the best interests of the Company and/or the Shareholders as a whole. The Directors have undertaken a review of the Company's liabilities (including contingent liabilities) and consider that the Company will be able to satisfy the Court that, as at the date (if any) on which the Court Order relating to the Capital Reduction and the statement of capital in respect of the Capital Reduction have both been registered by the Registrar of Companies at Companies House and the Capital Reduction therefore become effective, the Company's creditors will be sufficiently protected.

Once the Capital Reduction becomes effective, the resulting new ordinary shares of £0.01 (1 penny) each will have the same rights as the New Ordinary Shares, including in respect of voting rights, entitlement to dividends and other rights.

If you hold a share certificate in respect of your New Ordinary Shares in the Company, this will remain valid from the time that the Capital Reduction becomes effective for the same number of shares but with the reduced nominal value of £0.01 (1 penny). New share certificates will not be sent to Shareholders following the Capital Reduction becoming effective.

12.3. *Share options/warrants*

The Company has in issue options over, in aggregate, 4,389,286 Existing Ordinary Shares, including options over 300,000 Existing Ordinary Shares which have been issued to Robert Khalastchy, all of such options being exercisable at various prices from 0.70 pence to 2.00 pence. Following the Share Consolidation, these options will apply in aggregate to 109,732 New Ordinary Shares and will have adjusted exercise prices from 28.0 pence to 80.0 pence.

In addition, the Company has granted warrants to subscribe for 5,600,000 Existing Ordinary Shares including warrants over 100,000 Existing Ordinary Shares which have been issued to Michael Edelson all of such warrants having a subscription price of 5 pence. Following the Share Consolidation, these warrants will apply in respect of, in aggregate 140,000 New Ordinary Shares and will have a subscription price of 200 pence.

Notice of the adjustment to the outstanding options and warrants will be sent to the option and warrant holders as soon as reasonably practicable following the Share Consolidation Record Date.

13. Related Party transaction

Livingbridge and Hargreave Hale are, as Substantial Shareholders, related parties of the Company. Livingbridge and Hargreave Hale have unconditionally agreed to subscribe for 2,266,313 Placing Shares and 1,590,643 Placing Shares respectively. Following Admission their interests in the Company will be as follows:

<i>Shareholder</i>	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of existing share capital</i>	<i>Number of New Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
Livingbridge	93,495,489	18.32	4,603,700	20.78
Hargreave Hale	64,084,850	12.87	3,192,764	14.41

The issue of the Placing Shares to Livingbridge and Hargreave Hale are related party transactions under Rule 13 of the AIM Rules. The Directors consider, having consulted with Shore Capital, that the terms of the related party transactions with Livingbridge and Hargreave Hale are fair and reasonable insofar as Shareholders are concerned.

As part of their placing participation of 2,266,313 Placing Shares (amounting to approximately £1.36 million at the Placing Price and representing 10.23 per cent. of the Enlarged Share Capital), Livingbridge has been granted the right to appoint a director to the board of the Company for as long as it retains a minimum interest of 10 per cent. of the issued share capital of the Company.

14. Change of name

Subject to the Shareholders' approval by way of a special resolution, it is proposed, pursuant to Resolution 5, that the name of the Company be changed to SysGroup plc shortly after the General Meeting. If Resolution 5 to approve the change of name of the Company is passed at the General Meeting, the Company's AIM symbol will be changed to SYS and its website address will be changed to www.sysgroup.uk.

15. Irrevocable undertakings

The Company has received irrevocable undertakings to vote in favour of the Resolutions from Directors and certain Shareholders who hold, or are interested in, an aggregate of 369,909,080 Existing Ordinary Shares, representing 72.48 per cent. of the Company's current issued share capital.

16. General Meeting

Set out at the end of this document is a notice convening the General Meeting to be held at the offices of Kuit Steinart Levy LLP, 7th Floor, Blackfriars House, The Parsonage, Manchester M3 2JA on 5 July 2016 at 11.30 a.m., at which the Resolutions will be proposed as ordinary or special resolutions as set out below:

Ordinary Resolutions

1. to provide the Directors with the relevant authority pursuant to section 551 of the Act to issue and allot equity securities to facilitate the Placing, the Acquisition and provide the Directors with authority to issue and allot further equity securities up to an aggregate nominal value of £886,046.04;
2. to consolidate every 40 Existing Ordinary Shares into one New Ordinary Share;

Special Resolutions

3. to approve the Capital Reduction;
4. to disapply pre-emption rights in connection with the issue and allotment of equity securities to facilitate the Placing, the Acquisition and provide the Directors with authority to issue and allot further equity securities on a non-pre-emptive basis up to an aggregate nominal value of £886,046.04; and
5. to change the name of the Company to "SysGroup plc".

17. Action to be taken

The Form of Proxy for use at the General Meeting accompanies this document. The Form of Proxy should be completed and signed in accordance with the instructions thereon and returned to the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, as soon as possible, but in any event so as to be received by no later than 11.30 a.m. on 1 July 2016. Alternatively, CREST members who wish to appoint a proxy or proxies via CREST may do so in accordance with the procedures set out in the Notice of General Meeting and the Form of Proxy.

The completion and return of the Form of Proxy or appointment of a proxy via CREST will not preclude Shareholders from attending the General Meeting and voting in person should they so wish.

18. Recommendation

The Directors consider the Proposals to be in the best interests of the Company and its Shareholders as a whole and accordingly unanimously recommend Shareholders to vote in favour of the Resolutions to be proposed at the General Meeting as they intend to do in respect of their beneficial holdings amounting, in aggregate, to 57,417,134 Existing Ordinary Shares, representing approximately 11.25 per cent. of the issued ordinary share capital of the Company in respect of all Resolutions.

Yours faithfully

Michael Edelson

Non-Executive Chairman

Daily Internet plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 06172239)

Notice of General Meeting

Notice is hereby given that a general meeting (the “**Meeting**”) of Daily Internet plc (the “**Company**”) will be held at the offices of Kuit Steinart Levy LLP, 7th Floor, Blackfriars House, The Parsonage, Manchester M3 2JA on 5 July 2016 at 11.30 a.m., for the purpose of considering and, if thought fit, passing the following resolutions (“**Resolutions**”), of which resolutions 1 to 2 will be proposed as ordinary resolutions and resolutions 3 to 5 will be proposed as special resolutions:

1. **THAT**, subject to the passing of resolutions 2 and 4 the Directors be generally and unconditionally authorised to allot equity securities (as defined in section 560(1) of the Companies Act 2006 (**Act**)):

- a. up to an aggregate nominal amount of £1,666,666.80 in connection with the Placing (as defined in the circular to shareholders accompanying this notice of general meeting (**Circular**));
- b. up to an aggregate nominal amount of £195,000.00 in connection with the issue of Consideration Shares (as defined in the Circular) pursuant to the Acquisition (as defined in the Circular);
- c. up to an aggregate nominal amount of £527,708.40 in connection with the issue of Earn-Out Shares (as defined in the Circular) pursuant to the Acquisition (or if the Reduction of Capital (as defined below) is confirmed by the Court, £26,385.42);
- d. up to an aggregate nominal amount of £443,023.02 (or if the Reduction of Capital (as defined below) is confirmed by the Court, £22,151.15) in connection with an offer by way of a rights issue:
 - I. to 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

- e. in any other case, up to an aggregate nominal amount of £886,046.04 (or if the Reduction of Capital (as defined below) is confirmed by the Court, £44,302.30) (such amount to be reduced by the nominal amount of any equity securities allotted under resolution 1(d) above in excess of £443,023.02), (or if the Reduction of Capital (as defined below) is confirmed by the Court), £22,151.15) provided that this authority shall, unless renewed, varied or revoked by the Company, expire 15 months from the date this resolution is passed or, if earlier, the date of the next annual general meeting of the Company (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the Directors may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

For the purposes of this resolution 1 and resolution 4: “**Relevant Securities**” means:

- I. shares in the Company other than shares allotted pursuant to: an employee share scheme (as defined by section 1166 of the Act); a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security; or a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security; and
 - II. any right to subscribe for or to convert any security into shares in the Company other than rights to subscribe for or convert any security into shares allotted pursuant to an employee share scheme (as defined by section 1166 of the Act). References to the allotment of Relevant Securities in the resolution include the grant of such rights.
2. **THAT**, subject to the passing of resolution 1 and resolution 4, every 40 ordinary shares of £0.005 (0.5 pence) each (**Existing Ordinary Shares**) be consolidated into one ordinary share of £0.20 (20 pence) each (**New Ordinary Shares**).
 3. **THAT**, subject to the passing of resolutions 1, 2 and 4 and to the confirmation of the Court:
 - a. the paid up capital in respect of each New Ordinary Share be reduced by £0.19 (19 pence) with the nominal amount of each New Ordinary Share becoming an ordinary share of £0.01 (1 penny) each (**Reduced Ordinary Share**) and the amount by which the paid up capital is so reduced be credited to a reserve; and
 - b. the share premium account of the Company be cancelled and the amount by which the share premium account is so reduced be credited to a reserve.(a and b together being the **Reduction of Capital**).
 4. **THAT**, subject to the passing of resolution 1 and 2, the Directors be given the general power to allot equity securities (as defined by section 560 of the Act) for cash, either pursuant to the authority conferred by resolution 1 or by way of a sale of treasury shares, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - a. the allotment of Placing Shares (as defined in the Circular) up to an aggregate nominal value of £1,666,666.80 in connection with the Placing (as defined in the Circular);
 - b. the allotment of Consideration Shares (as defined in the Circular) in connection with the Acquisition (as defined in the Circular) up to an aggregate nominal value of £195,000.00;
 - c. the allotment of Earn-Out Shares (as defined in the Circular) up to an aggregate nominal value of £527,708.40 (or if the Reduction of Capital has been confirmed by the Court, £26,385.42) in connection with the Acquisition (as defined in the Circular);
 - d. the allotment of equity securities up to an aggregate nominal amount of £443,023.02 (or if the Reduction of Capital has been confirmed by the Court, £22,151.15) 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

- e. the allotment (otherwise than pursuant to resolutions 4(a) to (d) above) of equity securities up to an aggregate nominal amount of £886,046.04 (or if the Reduction of Capital has been confirmed by the Court, £44,302.30).

The power granted by this resolution will expire 15 months from the date this resolution is passed or, if earlier, the conclusion of the Company's next annual general meeting (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry make offers or agreements which would or might require Relevant Securities to be allotted after such expiry and the Directors may allot Relevant Securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

This resolution revokes and replaces all unexercised powers previously granted to the Directors to allot Relevant Securities as if section 561(1) of the Act did not apply but without prejudice to any allotment of Relevant Securities already made, offered or agreed to be made pursuant to such authorities.

- 5. **THAT**, subject to the passing of resolutions 1, 2 and 4 the name of the Company be changed from "Daily Internet plc" to "SysGroup plc".

Dated 15 June 2016

By Order of the Board

Clive Maudsley
Company Secretary

Registered office:

First Floor, Nelson House
Park Road
Timperley
Cheshire WA14 5BZ

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 48 hours before the time appointed for holding the Meeting or adjourned Meeting shall be entitled to attend and vote at the 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 Meeting.
2. A member who is entitled to attend, speak and vote at the 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 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 Meeting (although voting in person at the 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 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.
3. 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 registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, by no later than 48 hours before the time appointed for holding the Meeting.
4. The notes to the proxy form include instructions on how to appoint a proxy by using the CREST proxy appointment service.
5. 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.
6. 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 to 4 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.

