

ARTHUR ANDERSEN

ARTHUR ANDERSEN & CO, SC

189075.

14 November 1995

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Birmingham B1 1BD
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The Directors
ITnet Limited
PO Box 57
Laburnum House
Laburnum Road
Birmingham
B30 2BD

Our ref lealwt30/dk

Your ref

Dear Sirs

As requested, we hereby submit our resignation as auditor of ITnet Limited with immediate effect.

As required by section 394 (1) of the Companies Act 1985, we confirm that there are no circumstances which we consider should be brought to the notice of the members or the creditors of the Company.

Yours faithfully



Price Waterhouse



**REPORT BY THE AUDITORS OF ITNET LIMITED ("THE COMPANY")
TO THE ROYAL BANK OF SCOTLAND PLC ("THE BANK") AND 3I GROUP PLC ("THE INVESTOR")**

This report is given in connection with the proposed arrangement whereby the company will give financial assistance for the purchase of its own shares, particulars of which are given in the statutory declaration made this day by the directors pursuant to section 155(6) of the Companies Act 1985 (the Act).

The purpose of this report is to assist the bank and investor in considering whether the proposed arrangement is permitted under section 155(2) of the Act and it is not intended to be used, quoted or referred to for any other purpose.

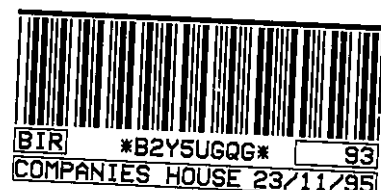
We have examined the Board Minutes dated ^{RJ}16 November 1995 (a copy of which is attached, initialled by us for the purpose of identification) for which the directors are solely responsible and have enquired into the company's state of affairs so far as necessary for us to review the bases for the Board Minutes. Our enquiry did not constitute an audit under the provisions of the Companies Act 1985.

We confirm that as at the close of business on ^{RJ}16 November 1995 the aggregate of the company's assets as stated in its accounting records exceeded the aggregate of its liabilities as so stated.

We are not aware of anything to indicate that the opinion expressed in Clause of the Board Minutes is unreasonable in all the circumstances.

**Price Waterhouse
Chartered Accountants and
Registered Auditors**

16 November 1995



Price Waterhouse



**AUDITORS' REPORT TO THE DIRECTORS OF ITNET LIMITED
PURSUANT TO SECTION 156(4) OF THE COMPANIES ACT 1985**

We have examined the attached statutory declaration of the directors dated ¹²16 November 1995 in connection with the proposal that the company should give financial assistance for the purchase of the whole of the ordinary share capital of the company.

Basis of Opinion

We have enquired into the state of the company's affairs in order to review the basis for the statutory declaration.

Opinion

We are not aware of anything to indicate that the opinion expressed by the directors in their declaration as to any of the matters mentioned in Section 156(2) of the Companies Act 1985 is unreasonable in all the circumstances.

**Price Waterhouse
Chartered Accountants and
Registered Auditors**

16 November 1995



Schedule B

- (a) the Collateral Debenture secures the obligations of the Purchaser under an agreement of even date providing facilities to the Purchaser of £5m ("**the Mezzanine Loan Agreement**") such facilities being used to fund the Acquisition and secures the liability of the Company by fixed and floating charges over all its undertaking and assets;
- (b) the Unlimited Guarantee will secure (inter alia):
- (i) the obligations of the Purchaser to the Bank under term, overdraft and capital expenditure facilities all as set out in an agreement between the Bank, the Purchaser, the Company and Maurant & Co Trustees Limited ("**the Bank Loan Agreement**");
 - (ii) all and any other obligations of the Purchaser and the Company to the Bank from time to time inter alia insofar as they relate to the Acquisition;
- (c) the Debenture will secure the obligations of the Company to the Bank under the facilities referred to at sub-clause (b) above ("**the Facilities**");
- (d) the Trade Marks Assignment will secure the obligations of the Company to the Bank under the Facilities;
- ~~(e) The Policy Assignment assigns from the Company to the Bank, the legal and beneficial interest in the proceeds of the life insurance policies (and any replacement policies in respect of the lives of such individuals from time to time) of Mrs Bridget Blow, Mr Brian Wells, Mr Daryl Howe, Mr Rod Watts and Mr Peter Williamson, and will secure these monies to the Bank;~~
- (f) the Authority would allow the Bank to apply the Company's credit balances against overdrawn accounts of the Purchaser at the Bank's discretion including (inter alia) under (inter alia) the Facilities;
- (g) the First Loan will be used for the purpose of funding the Acquisition;
- (h) the Second Loan will be used for the purposes of funding the Acquisition and will be available for drawdown in three tranches on the third, fourth and fifth anniversary of completion of the Acquisition to enable the Purchaser to satisfy its obligations under the agreement relating to the Acquisition;
- (i) The Third Loan will be made available for drawing by the Purchaser to enable it to fund payments due by the Purchaser to the landlord of the premises at Laburnum House, Bournville, Birmingham;
- (j) the Support Agreement will enable the Company to make available facilities to the Purchaser to enable it to fund payments to the Investors under the Mezzanine Loan Agreement and all other obligations of the Company to the Investors;

Schedule A

W46.

A For the purposes of this Form the following phrases shall bear the following meanings:

- "the Acquisition" the purchase by the Purchaser of the entire issued ordinary share capital of the Company being 6,000,000 ordinary shares of US\$ 0.001 each in bearer form
- "the Bank" The Royal Bank of Scotland plc
- "the Company" ITnet Limited (Company No. 189075).
- "the Investors" as defined in the Support Agreement of even date between the Purchaser (1) the Company (2) and 3i Group plc (3)
- "the Purchaser" ITnet Holdings Limited (Company No. 3036256)

Other words and phrases are defined the remainder of Schedule A and Schedule B below.

B the assistance will take the form of:

- (a) the granting by the Company of a collateral debenture in favour of 3i plc (as security trustee) ("**the Collateral Debenture**")
- (b) the granting of an unlimited guarantee ("**the Unlimited Guarantee**") by the Company in favour of the Bank
- (c) the granting by the Company of a debenture ("**the Debenture**") in favour of the Bank creating fixed and floating charges over the undertaking, property and assets of the Company
- (d) the granting by the Company in favour of the Bank of an assignment of trademarks ("**the Trade Marks Assignment**") (as detailed in such assignment) of the Company
- (e) the granting by the Company in the future (if at all) to the Bank of authority ("**the Authority**") to apply the Company's credit balances against overdrawn accounts of the Purchaser at the Bank's discretion including (inter alia) under the Facilities;
- (f) the granting by the Company to the Purchaser of an unsecured loan ("**the First Loan**") of £3,175,000 million being repayable on demand and bearing an interest rate of 2% over the base rate for the time being of the Bank;

- (g) the granting by the Company to the Purchaser of an unsecured loan facility ("**the Second Loan**") of up to £1m available for drawdown in three tranches on the third, fourth and fifth anniversary of completion of the Acquisition repayable on demand together with interest at 2% above the base rate of the Bank from time to time;
- (h) the granting by the Company to the Purchaser of an unsecured loan facility ("**the Third Loan**") of up to a maximum of £450,000 available for drawing by the Purchaser any such advances being repayable on demand unsecured and bearing interest at the rate of 2% above the base rate for the time being of the Bank;
- (i) the execution by the Company of a Support Agreement ("**the Support Agreement**") in favour of 3i Group plc;

Please do not write in this margin

Please complete legibly, preferably in black type, or bold block lettering

Delete either (a) or (b) as appropriate

~~1~~ We have formed the opinion, as regards the company's initial situation immediately following the date on which the assistance is proposed to be given, that there will be no ground on which it could then be found to be unable to pay its debts. (note 3)

(a) ~~1~~ We have formed the opinion that the company will be able to pay its debts as they fall due during the year immediately following that date. (note 3)

~~(b) ~~1~~ We have formed the opinion that the company will be able to pay its debts in full within 12 months of the commencement of the winding up. (note 3)~~

And ~~1~~ we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1835.

Declared at 55 Colmore Row
Birmingham
B3 2AS
the 16th day of November
One thousand nine hundred and Ninety Five
before me E. Ellis ELAINE ELLIS

A Commissioner for Oaths or Notary Public or Justice of the Peace or a Solicitor having the powers conferred on a Commissioner for Oaths.

Declarants to sign below

[Signature]
.....
BRIDGET BLOW

[Signature]
.....
BRIAN WELLS

[Signature]
.....
DARYL HOWE

[Signature]
.....
RODD WATTS

[Signature]
.....
PETER WILLIAMSON

NOTES

- 1 For the meaning of "a person incurring a liability" and "reducing or discharging a liability" see section 152(3) of the Companies Act 1985.
- 2 Insert full name(s) and address(es) of the person(s) to whom assistance is to be given; if a recipient is a company the registered office address should be shown.
- 3 Contingent and prospective liabilities of the company are to be taken into account—see section 156(3) of the Companies Act 1985.
- 4 The auditors report required by section 156(4) of the Companies Act 1985 must be annexed to this form.



The Solicitors' Law Stationery Society plc, Paulton House, 8 Shepherdess Walk, London N1 7LB

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Companies G155(6)(a)