

DIRECTORS' REPORT AND ACCOUNTS

XPEDITE SYSTEMS LIMITED

(Registered number 2778084)

31 December 1996



XPEDITE SYSTEMS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

Directors	J McMonigall (Chairman) D Proctor (Managing Director)
Secretary	D Proctor
Registered office	Xpedite House Clifton Moor Business Village James Nicolson Link York YO3 4XG
Auditors	Price Waterhouse
Bankers	Midland Bank plc
Solicitors	Hammond Suddards

XPEDITE SYSTEMS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996

The directors present their report and financial statements for the year ended 31 December 1996.

REVIEW OF THE BUSINESS

The group provides a facsimile broadcast service and other related enhanced facsimile services.

Growth in business has continued to exceed expectations and the coming year should see a further strengthening of the position of the company.

On 15 March 1996 the company acquired the whole of the issued share capital of Connaught Commercial Services Limited for total consideration of £3,257,673. On the same date part of the acquired business was sold at book value for £1,152,150. See Note 7 to the financial statements for further details.

RESULTS AND DIVIDENDS

There was a group profit on ordinary activities after taxation for the year of £3,379,596 (1995 - loss: £275,795) which will be transferred to reserves.

Dividend of £237,500 are payable on the cumulative redeemable preference shares. In addition, £365,849 of dividends can now be declared in relation to prior periods.

FIXED ASSETS

Movements in fixed assets in the year are set out in Note 8 to the financial statements. The main outlay on tangible fixed assets in the year was on computer systems and communications equipment.

In the year the company entered into a contract to purchase a freehold property for £900,000. The 10% deposit paid on exchange of contracts is recorded as a fixed asset in the financial statements for 1996. Completion of the purchase took place on 28 February 1997 at which date the balance was paid from the company's existing cash resources.

DIRECTORS

The directors who held office in the year were:

J McMonigall
D Proctor

XPEDITE SYSTEMS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

DIRECTORS' INTERESTS

The directors had the following interests in the shares of the company:

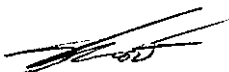
	<u>31 December 1996</u>		<u>31 December 1995</u>	
	<u>£1 preference shares</u>	<u>£1 ordinary shares</u>	<u>£1 preference shares</u>	<u>£1 ordinary shares</u>
J McMonigall	-	-	-	-
D Proctor	19,712	60,000	19,712	50,000

In addition, the directors have the following options over £1 ordinary shares at par, exercisable in the event that Xpedite Systems, Inc. or Xpedite Systems Limited exercise the put/call option at a date between 2 January 1998 and 31 December 2005.

	<u>31 December 1996</u>	<u>31 December 1995</u>
D Proctor	3,333	3,333

AUDITORS

Price Waterhouse have indicated their willingness to continue as auditors of the company and a resolution to re-appoint them will be proposed at the next Annual General Meeting.



D PROCTOR
Secretary

23 June 1997

Registered office:

Xpedite House
Clifton Moor Business Village
James Nicolson Link
York
YO3 4XG

XPEDITE SYSTEMS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group at the balance sheet date and of the result of the group for that financial year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF XPEDITE SYSTEMS LIMITED

We have audited the financial statements on pages 5 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 1996 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants
and Registered Auditors

23 June 1997

XPEDITE SYSTEMS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996

	Notes		1995
TURNOVER			
Continuing operations		15,892,498	4,396,376
Acquisitions	7	<u>440,634</u>	<u>2,431,418</u>
		16,333,132	6,827,794
Cost of sales		<u>(8,984,235)</u>	<u>(4,334,054)</u>
GROSS PROFIT		7,348,897	2,493,740
Administration expenses		<u>(2,631,380)</u>	<u>(2,179,349)</u>
OPERATING PROFIT/(LOSS)			
- Continuing operations	2	4,783,732	222,415
- Acquisitions	2	<u>(66,215)</u>	<u>91,976</u>
		4,717,517	314,391
Exceptional write down of fixed assets		-	(390,548)
Interest receivable		12,654	25,610
Interest payable	4	<u>(456,203)</u>	<u>(161,631)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		4,273,968	(212,178)
Tax on profit/(loss) on ordinary activities	5	<u>(894,372)</u>	<u>(63,617)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		3,379,596	(275,795)
Appropriations in respect of non-equity shares	6	<u>(672,865)</u>	<u>(315,186)</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR TRANSFERRED TO/(FROM) RESERVES	13	<u>£2,706,731</u>	<u>£(590,981)</u>

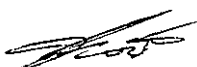
The accounts have been prepared on an unmodified historical cost basis. There are no recognised gains or losses other than as shown above.

The above-noted appropriations in respect of non-equity shares includes amounts which cannot legally be declared as dividends and have been added back as a movement on profit and loss account reserve as shown in Note 13.

XPEDITE SYSTEMS LIMITED

CONSOLIDATED BALANCE SHEET - 31 DECEMBER 1996

	Notes		1995
FIXED ASSETS			
Tangible fixed assets	8	<u>1,864,630</u>	<u>1,466,680</u>
CURRENT ASSETS			
Debtors	9	4,761,650	2,833,101
Cash		<u>419,765</u>	<u>587,586</u>
		5,181,415	3,420,687
CREDITORS (amounts falling due within one year)	10	<u>(5,308,574)</u>	<u>(4,091,619)</u>
NET CURRENT LIABILITIES		(127,159)	(670,932)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,737,471</u>	<u>795,748</u>
CREDITORS (amounts falling due after more than one year)	11	<u>(3,515,000)</u>	<u>(3,250,000)</u>
		£(1,777,529)	£(2,454,252)
CAPITAL AND RESERVES			
Called up share capital	12	5,329,033	3,749,274
Unissued non-equity share capital	12	-	1,568,959
Profit and loss account	13	<u>1,194,173</u>	<u>(1,582,074)</u>
		6,523,206	3,736,159
Goodwill write-off reserve	13	<u>(8,300,735)</u>	<u>(6,190,411)</u>
TOTAL SHAREHOLDERS' FUNDS		£(1,777,529)	£(2,454,252)
Equity interests		(7,323,093)	(7,929,500)
Non-equity interests		<u>5,545,564</u>	<u>5,475,248</u>
		£(1,777,529)	£(2,454,252)



D Proctor

DIRECTOR

APPROVED BY THE BOARD
ON 23 JUNE 1997

XPEDITE SYSTEMS LIMITED

COMPANY BALANCE SHEET - 31 DECEMBER 1996

	Notes		As restated 1995
FIXED ASSETS			
Investments	7	8,433,196	6,322,872
Tangible fixed assets	8	<u>1,864,630</u>	<u>1,466,680</u>
		10,297,826	7,789,552
CURRENT ASSETS			
Debtors	9	4,971,794	2,010,992
Cash		<u>404,779</u>	<u>396,501</u>
		5,376,573	2,407,493
CREDITORS (amounts falling due within one year)	10	<u>(5,484,513)</u>	<u>(2,865,263)</u>
NET CURRENT LIABILITIES		(107,940)	(457,770)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,189,886</u>	<u>7,331,782</u>
CREDITORS (amounts falling due after more than one year)	11	<u>(3,515,000)</u>	<u>(3,250,000)</u>
		£6,674,886	£4,081,782
CAPITAL AND RESERVES			
Called up share capital	12	5,329,033	3,749,274
Unissued non-equity share capital	13	-	1,568,959
Profit and loss account	13	<u>1,345,853</u>	<u>(1,236,451)</u>
TOTAL SHAREHOLDERS' FUNDS		£6,674,886	£4,081,782
Equity interests		1,129,322	(1,393,466)
Non-equity interests		<u>5,545,564</u>	<u>5,475,248</u>
		£6,674,886	£4,081,782


D Proctor

DIRECTOR

APPROVED BY THE BOARD
ON 23 JUNE 1997

XPEDITE SYSTEMS LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1996

	Notes		1995
NET CASH INFLOW FROM OPERATING ACTIVITIES	17	2,536,277	533,134
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		12,653	25,610
Interest paid		(583,019)	(33,336)
Interest element of hire purchase lease payments		<u>(50)</u>	<u>(295)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(570,416)	(8,021)
TAXATION			
Corporation tax paid		(5,500)	(239,028)
ACT paid		<u>-</u>	<u>(221,639)</u>
		(5,500)	(460,667)
INVESTING ACTIVITIES			
Deferred consideration		(154,086)	-
Payments to acquire tangible fixed assets		(876,571)	(1,093,675)
Purchase of subsidiary undertakings	18	<u>(2,105,523)</u>	<u>(3,168,703)</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(3,136,180)</u>	<u>(4,262,378)</u>
NET CASH OUTFLOW BEFORE FINANCING		(1,175,819)	(4,197,932)
FINANCING			
Additional secured loan repayable within five years		1,000,000	4,000,000
Issue of ordinary share capital		10,000	-
Issue of A ordinary share capital		-	50,000
Issue of cumulative redeemable preference shares		-	400,000
Capital element of HP hire purchase lease payments		<u>(2,002)</u>	<u>(2,942)</u>
NET CASH INFLOW FROM FINANCING	19	<u>1,007,998</u>	<u>4,447,058</u>
(DECREASE)/INCREASE IN CASH	20	<u>£(167,821)</u>	<u>£249,126</u>

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

1 ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies are set out below.

(1) Basis of consolidation

The group financial statements consolidate the financial statements of Xpedite Systems Limited and its subsidiaries. When businesses are acquired or sold during the year, their results are included from or to the date on which control passes.

(2) Turnover

Turnover represents the invoiced value of services provided in the period, excluding Value Added Tax.

(3) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of assets is written off in equal annual instalments over estimated useful asset lives, which are as follows:

Motor vehicles	3 years
Computers, equipment and furniture	3-5 years

(4) Foreign exchange

Transactions denominated in foreign currencies are converted into sterling at the rate ruling at the transaction date. Assets and liabilities denominated in foreign currencies are included in the balance sheet at the rates prevailing at that date. Any translation differences arising are dealt with in the profit and loss account.

(5) Lease and hire purchase arrangements

Assets held under hire purchase arrangements and their related obligations are recorded at the value of the asset at inception. The amount by which payments exceed the recorded liability are treated as finance charges and are written off over the term of the hire purchase agreement so as to give a constant rate of charge.

Rental costs under operating leases are charged to the profit and loss account in the period in which they are incurred.

(6) Goodwill

Goodwill represents the difference between the value of a business acquired, as represented by the consideration paid, and the fair value of the net assets acquired and is written off to a goodwill reserve on consolidation. In the prior year this amount was also written off to a goodwill reserve in the company. This represents a change in accounting policy and the carrying value of investments has been restated by £6,322,872 by way of a prior year adjustment. In the current year £2,110,324 would have been written off to goodwill reserve had the previous accounting policy been applied.

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(7) Investments

Fixed asset investments are stated at cost unless, in the opinion of the directors, there has been a permanent diminution in value, in which case an appropriate provision is made.

(8) Taxation

The charge for taxation is based upon the results for the year and takes into account deferred taxation, calculated on the liability method, which is provided to the extent that the directors consider a liability will crystallise in the foreseeable future.

2 OPERATING PROFIT

	1996 £	1995 £
Operating profit is stated after charging:		
Rentals under operating leases	57,147	54,071
Plant and machinery	86,675	73,965
Land and buildings		
Depreciation		
Owned assets	476,305	251,825
Assets held under hire purchase contracts	2,316	2,316
Auditors' remuneration	12,000	12,000
Staff costs (Note 3)	2,007,962	1,244,439
	<u>2,007,962</u>	<u>1,244,439</u>

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

3 DIRECTORS' EMOLUMENTS AND STAFF COSTS

	<u>1996</u>	<u>1995</u>
Staff costs during the year comprised:		
Salaries (including directors' emoluments)	1,847,884	1,123,651
Social security costs	<u>160,078</u>	<u>120,788</u>
	<u>£2,007,962</u>	<u>£1,244,439</u>
Remuneration of Chairman	<u>£Nil</u>	<u>£Nil</u>
Remuneration of highest paid director	<u>£73,888</u>	<u>£225,183</u>
No pension contributions are made in respect of directors.		

	Number	Number
The average number of persons employed by the group during the year was:		
Sales	12	15
Administration	<u>51</u>	<u>18</u>
	<u>63</u>	<u>33</u>

4 INTEREST PAYABLE

	<u>1996</u>	<u>1995</u>
Hire purchase interest	50	295
Interest on loans repayable within five years	<u>456,153</u>	<u>161,336</u>
	<u>£456,203</u>	<u>£161,631</u>

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

5 TAXATION

	<u>1996</u>	<u>1995</u>
Current year corporation tax at 33%	1,081,289	63,717
Prior years	<u>(186,917)</u>	<u>-</u>
	<u>£894,372</u>	<u>£63,717</u>

The tax charge has been reduced due to the utilisation of tax losses brought forward from previous years.

6 APPROPRIATIONS IN RESPECT OF NON-EQUITY SHARES

	<u>1996</u>	<u>1995</u>
Cumulative redeemable preference share dividend	237,500	224,020
Cumulative redeemable A preference share redemption premium	<u>435,365</u>	<u>91,166</u>
	<u>£672,865</u>	<u>£315,186</u>

7 INVESTMENTS IN SUBSIDIARIES

Company	<u>Shares in subsidiary undertakings</u>
<u>Cost</u>	
At 1 January 1996	6,322,872
Adjustment re prior year acquisition	(1,355)
Additions	<u>2,111,679</u>
At 31 December 1996	<u>8,433,196</u>
<u>Provisions</u>	
As previously stated at 1 January 1996	(6,322,872)
At 1 January 1996 and 31 December 1996	<u>-</u>
<u>Net book amount</u>	
As previously stated at 1 January 1996	-
At 1 January 1996	<u>6,322,872</u>
At 31 December 1996	<u>£8,433,196</u>

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

7 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The company owns 100% of the ordinary share capital of Transmit International Limited. On 15 March 1996 the company acquired the whole of the issued ordinary share capital of Connaught Commercial Services Limited. The principal activity of the subsidiary undertakings is the provision of fax broadcast services. The subsidiary undertakings are registered in England. The transaction has been accounted for as an acquisition.

The directors consider that the investments have suffered no impairment in value and it is appropriate to carry the investments at cost.

The aggregate book and fair values of the assets acquired were as follows:

	<u>Book value</u>	<u>Adjustments</u>	<u>Fair value to Group</u>
Intangible fixed assets	2,676,550	(2,676,550)	-
Debtors	336,810	(18,618)	318,192
Creditors (amounts falling due within one year)	<u>(324,348)</u>	<u>-</u>	<u>(324,348)</u>
Net assets acquired	2,689,012	(2,695,168)	(6,156)
Intangible assets held for sale	1,152,150	-	<u>1,152,150</u>
			1,145,994
Consideration:			3,146,613
Cash			<u>111,060</u>
Expenses of acquisition			3,257,673
			<u><u>£2,111,679</u></u>
Goodwill written off to reserves (Note 13)			

On the day of acquisition of Connaught Commercial Services Limited, the company sold goodwill, representing customer lists for USA and Germany based customers, at estimated book value to Xpedite Systems, Inc. and Xpedite Systems GmbH for cash consideration of £1,152,150.

The intangible asset acquired consisted of goodwill purchased and in accordance with group policy has been restated as having been written off to reserves in the financial statements of Connaught Commercial Services Limited.

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

7 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The results of Connaught Commercial Services Limited for the 26 weeks ended 13 March 1996, were as follows:

Turnover	224,859
Cost of sales	(173,356)
Gross profit	51,503
Operating expenses	(32,878)
Profit before taxation	18,625
Tax	(6,156)
Profit on ordinary activities after taxation	£12,469

8 TANGIBLE FIXED ASSETS

	Freehold property	Motor vehicles	Computers, equipment and furniture	Total
<u>Group and company</u>				
<u>Cost</u>				
At 1 January 1996	-	11,595	1,905,910	1,917,505
Additions	90,000	-	786,571	876,571
At 31 December 1996	90,000	11,595	2,692,481	2,794,076
<u>Depreciation</u>				
At 1 January 1996	-	8,113	442,712	450,825
Charge for the year	-	2,316	476,305	478,621
At 31 December 1996	-	10,429	919,017	929,446
<u>Net book amount</u>				
At 31 December 1996	£90,000	£1,166	£1,773,464	£1,864,630
At 31 December 1995	£Nil	£3,482	£1,463,198	£1,466,680

The net book amount at 31 December 1996 includes £1,166 (1995 £3,482) in respect of assets held under hire purchase arrangements.

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

9 DEBTORS

	<u>Group</u>		<u>Company</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
Trade debtors	4,294,176	2,435,896	4,241,181	1,613,787
Amounts owed by related parties (Note 21)	304,373	378,750	304,373	378,750
Amount owed by subsidiary undertakings	-	-	313,485	-
Other debtors and prepayments	<u>163,101</u>	<u>18,455</u>	<u>112,755</u>	<u>18,455</u>
	<u>£4,761,650</u>	<u>£2,833,101</u>	<u>£4,971,794</u>	<u>£2,010,992</u>

10 CREDITORS (amounts falling due within one year)

	<u>Group</u>		<u>Company</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
Bank loan (Note 11)	1,485,000	750,000	1,485,000	750,000
Hire purchase liabilities	-	2,002	-	2,002
Trade creditors	1,533,210	1,686,357	1,533,210	558,393
Dividend payable	603,349	-	603,349	-
Amounts owed to subsidiary undertaking	-	-	-	125,466
Amounts owed to related parties (Note 21)	243,299	804,642	243,299	804,642
Other creditors and accruals	96,120	450,714	96,120	300,404
Corporation tax	905,349	10,322	1,081,288	-
Social security and other taxes	442,247	231,341	442,247	168,115
Deferred purchase consideration	<u>-</u>	<u>156,241</u>	<u>-</u>	<u>156,241</u>
	<u>£5,308,574</u>	<u>£4,091,619</u>	<u>£5,484,513</u>	<u>£2,865,263</u>

11 CREDITORS (amounts falling due after more than one year)

	<u>Group and company</u>	
	<u>1996</u>	<u>1995</u>
Bank loan	<u>£3,515,000</u>	<u>£3,250,000</u>

The loan is wholly repayable within five years and is secured by a mortgage over the assets of the company and its subsidiary undertakings.

	<u>Group and company</u>	
	<u>1996</u>	<u>1995</u>
Aggregate amounts repayable		
Within one year	1,485,000	750,000
Between one and two years	1,515,000	750,000
Between two and five years	<u>2,000,000</u>	<u>2,500,000</u>
	<u>£5,000,000</u>	<u>£4,000,000</u>

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

12 CALLED UP SHARE CAPITAL

	31 December 1996		31 December 1995	
	Number	£	Number	£
<u>Authorised</u>				
Ordinary shares of £1	83,333	83,333	83,333	83,333
A ordinary shares of £1	250,000	250,000	250,000	250,000
Cumulative redeemable preference shares of £1	2,775,000	2,775,000	2,775,000	2,775,000
Cumulative redeemable A preference shares of £1	2,712,094	2,712,094	2,712,094	2,712,094
Cumulative redeemable B preference shares of £1	<u>6,238,778</u>	<u>6,238,778</u>	<u>6,238,778</u>	<u>6,238,778</u>
	12,059,205	12,059,205	12,059,205	12,059,205
<u>Issued and fully paid</u>				
Ordinary shares of £1	60,000	60,000	50,000	50,000
A ordinary shares of £1	250,000	250,000	250,000	250,000
Cumulative redeemable preference shares of £1	2,375,000	2,375,000	2,375,000	2,375,000
Cumulative redeemable A preference shares of £1	2,644,033	2,644,033	1,074,274	1,074,274
Cumulative redeemable B preference shares of £1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	5,329,033	£5,329,033	3,749,274	£3,749,274

During the year 10,000 ordinary shares were issued for cash at par and 1,569,759 redeemable A preference share were issued at par; the preference shares were issued as part of the consideration for the acquisition of Transmit International Limited in 1995.

The A ordinary and ordinary shares have equal voting rights. None of the cumulative redeemable preference shares have voting rights. The A and B cumulative redeemable preference shares rank pari passu with the preference shares for capital distribution purposes. The A ordinary shares rank pari passu to the ordinary shares for dividend and in priority to them for capital distribution purposes, but behind the cumulative redeemable preference shares for both.

The cumulative redeemable A preference shares are redeemable at a premium representing 17.5% of the paid up amount in issue per annum. The accumulate premium for the year ended 31 December 1996 was £435,365 (1995 £91,166). The shares are redeemable at the earlier of:

- a request from holders of these shares on the anniversary of the date of issue;
- an agreement being reached for the sale of the ordinary and A ordinary shares; or
- 1 January 1998.

The cumulative redeemable B preference shares are entitled to receive a dividend at the annual rate of 15% of the paid up amount. No cumulative redeemable B preference shares have been issued. The cumulative redeemable A preference share dividend is to be paid in priority to the dividends for cumulative redeemable B preference shares and both in priority to the cumulative redeemable preference shares.

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

12 CALLED UP SHARE CAPITAL (CONTINUED)

No dividends were payable in respect of the cumulative redeemable preference shares in respect of accounting periods up to 31 December 1994. Subject to the availability of appropriate distributable reserves, dividends are to be declared payable in respect of subsequent periods at the rate of 10% of the paid up amount. The dividend amount in respect of the year was £237,500 (1995 £224,020). Prior period dividends of £365,849 have been declared during the period due to the availability of distributable reserves. Dividends are payable on redemption of the shares. The cumulative redeemable preference shares are redeemable when agreement is reached for the sale of the ordinary and A ordinary shares.

13 RESERVES

	<u>Profit and loss account</u>		<u>Goodwill write-off reserve</u>	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Deficit at 1 January 1996	(1,582,074)	(1,368,912)	(6,190,411)	(6,190,411)
Prior year adjustment	-	132,461	-	6,190,411
Deficit at 1 January 1996 as restated	(1,582,074)	(1,236,451)	(6,190,411)	-
Profit for the year	2,706,731	2,512,788	-	-
Goodwill written off (Note 7)	-	-	(2,111,679)	-
Goodwill adjustment re prior year acquisition	-	-	1,355	-
Adjustment in respect of premium on redemption of preference shares	435,365	435,365	-	-
Preference share dividend from prior period now declarable	(365,849)	(365,849)	-	-
Balance at 31 December 1996	£1,194,173	£1,345,853	£(8,300,735)	£-

A separate profit and loss account for the parent company has not been presented as permitted by Section 230 of the Companies Act 1985. The profit for the year after appropriations in respect of non-equity shares was £2,512,788 (1995 £377,819).

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	1996	1995	1996	1995
Profit/(loss) for the year	3,379,596	(275,795)	3,185,653	(62,633)
Dividends	(603,349)	-	(603,349)	-
Unissued non-equity share capital	-	1,568,959	-	1,568,959
Adjustment to non equity capital	800	-	800	-
New share capital issued	10,000	1,524,274	10,000	1,524,274
Adjustment to goodwill	1,355	-	-	-
Goodwill written off on acquisition	(2,111,679)	(6,190,411)	-	(6,190,411)
Prior year adjustment	-	-	-	6,322,872
Net addition to/(reduction in) shareholders' funds	676,723	(3,372,973)	2,593,104	3,163,061
Shareholders' funds at 1 January	(2,454,252)	918,721	4,081,782	918,721
Shareholders' funds at 31 December	£(1,777,529)	£(2,454,252)	£6,674,886	£4,081,782

15 CAPITAL COMMITMENTS

	1996	1995
Authorised and contracted	£810,000	£276,315

16 OPERATING LEASE COMMITMENTS

The group and company are committed to make the following payments in respect of operating leases in the year ending 31 December 1997:

	Land and buildings		Other	
	1996	1995	1996	1995
Leases which expire:				
Within less than two years	£8,128	£15,555	£16,230	£23,833
Within two to five years	£48,025	£45,385	£13,752	£7,620

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

17 RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1996	Group 1995
Operating profit	4,717,517	314,391
Depreciation charge	478,621	254,141
Increase in debtors	(1,610,357)	(1,278,535)
(Decrease)/increase in creditors	(1,049,504)	1,243,137
	<u>£2,536,277</u>	<u>£533,134</u>

18 ANALYSIS OF OUTFLOW OF CASH IN RESPECT OF THE PURCHASE OF SUBSIDIARY UNDERTAKINGS

	1996	Group 1995
Cash consideration paid	3,146,613	(3,364,504)
Cash received on disposal of intangible assets	(1,152,150)	354,695
Expenses	<u>111,060</u>	<u>(158,894)</u>
	<u>£2,105,523</u>	<u>£3,168,703</u>

19 ANALYSIS OF CHANGES IN FINANCING

	Issued share capital	Loan and hire purchase lease obligations
Balances at 1 January 1996	3,749,274	4,002,002
Cash inflows from financing	10,000	997,998
Shares issued for non-cash consideration	<u>1,569,759</u>	<u>-</u>
Balances at 31 December 1996	<u>£5,329,033</u>	<u>£5,000,000</u>

20 ANALYSIS OF CASH AND CASH EQUIVALENTS

	1996	1995	Movement
Cash	<u>£419,765</u>	<u>£587,586</u>	<u>£(167,821)</u>

XPEDITE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

21 RELATED PARTIES

Xpedite Systems Inc ("XSI") a US corporation, has an option to acquire, under certain conditions at some future date, shares of the company. XSI has similar arrangements with a French company, Xpedite Systems SA ("XSF") and with a German company Xpedite Systems GmbH ("XSG") which are engaged in the same area of business as Xpedite Systems Limited. Under the terms of a license agreement between the company and XSI, royalty payments are made to XSI as a fixed percentage of sales less communication costs. This is included in charges payable by the group. During the ordinary course of business the company has entered into certain transactions with XSI, XSF and XSG which are summarised below:

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Sales by the group	<u>889</u>	<u>568</u>
Purchase of tangible fixed assets	<u>609</u>	<u>935</u>
Charges payable by the company, reflected in cost of sales	<u>2,048</u>	<u>338</u>
Proceeds from sale of intangible assets	<u>1,152</u>	<u>-</u>

22 ULTIMATE CONTROL

The Directors consider APAX Partners & Co to have ultimate control over the group's business.