

REGISTRAR OF COMPANIES

THE EDUCATION EXCHANGE LIMITED
DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 1998



Registered No: 2966036

THE EDUCATION EXCHANGE LIMITED**DIRECTORS' REPORT**

The directors submit their report and the accounts for the year ended 30 September 1998.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company's principal activity during the year was the provision of Internet and Intranet services to local authority, educational and other markets.

The profit and loss account for the year is set out on page 4 of these accounts.

A 47% growth in turnover was achieved in the year, reflecting the dramatic increase in the customer base. A substantial increase in the order book was also achieved which underlines our confidence for the future.

A major marketing initiative started during the year, commencing with the 1998 BETT exhibition, which focused on raising awareness of the Internet and its importance to the education sector generally. This approach was extremely well received and has resulted in requests to present the Internet and its advantages at a number of conferences and seminars throughout the year. In 1998, The Education Exchange Limited has established a strong reputation as the Internet company which understands educational issues and cares about them.

During the year, we have continued to develop our partnership programme and we now have approximately 25 authorised education partners.

In mid 1998, The Education Exchange Limited announced its new Routed ISDN products to capitalise on the Schools' Internet Caller Tariff introduced by British Telecom and the launch of the National Grid for Learning (NGfL). The reaction of the market has been extremely favourable and this has enabled the company to reach its current total of 2,000 customers through its direct sales force, NGfL tenders and its partnership programme.

For 1999, we are planning to increase the education team substantially, continue to promote the advantages of the Internet in the educational sector and, further improve the service we offer to our customers in order to meet our forecast to double our customer base from its current level. Mainly increased overheads built up to cope with the increasing level of business.

Although a loss was incurred in the year, the directors consider the financial position of the company to be satisfactory. The Balance Sheet as at 30 September is negative but this is mainly due to the deferred income balance which represents pre-sold income for 1999.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

THE EDUCATION EXCHANGE LIMITED**DIRECTORS' REPORT (CONTINUED)****DIRECTORS' RESPONSIBILITIES (CONTINUED)**

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

DIVIDENDS AND APPROPRIATIONS

In view of the adverse profit and loss account the directors are unable to recommend the payment of a dividend.

DIRECTORS AND INTERESTS IN SHARES

The directors who served during the year were as follows:

Sir R T S Macpherson (Chairman)
T W Challenor (Managing Director)
R Almeida
S J Coles FCA
N K O McGhee

The directors had no interest in the shares of the company, as defined by the Companies Act 1985.

YEAR 2000

The directors have considered the risks and uncertainties surrounding the year 2000 issue. We have completed a review of our principal internal computer systems and have identified the key areas for detailed review, correction and testing. A programme is in place with all tasks to be completed during 1999. The directors are currently of the opinion that the risk to our business is not significant from these systems.

AUDITORS

On 1 March 1999, the auditors, Moores Rowland merged their practice with that of BDO Stoy Hayward and are now practising under that name. A resolution will be proposed at the forthcoming Annual General Meeting that BDO Stoy Hayward be re-appointed as auditors for the ensuing year.
By order of the board



N J L Steel
Secretary

27 APR 1999

1999

AUDITORS' REPORT TO THE MEMBERS OF
THE EDUCATION EXCHANGE LIMITED

We have audited the accounts set out on pages 4 to 11.

Respective responsibilities of directors and auditors

As described in the directors' report, the company's directors are responsible for the preparation of accounts. It is our responsibility as auditors to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

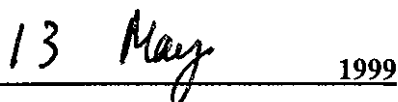
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error.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

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 30 September 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



BDO Stoy Hayward
Chartered Accountants
Registered Auditors
London



THE EDUCATION EXCHANGE LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 30 SEPTEMBER 1998**

| | Note | 1998 £ | 1997 £ |
|--|------|-----------|-----------|
| TURNOVER | 1(b) | 642,798 | 437,785 |
| Cost of sales | | 388,098 | 314,244 |
| GROSS PROFIT | | 254,700 | 123,541 |
| Administrative expenses | | 417,924 | 199,793 |
| OPERATING LOSS | | (163,224) | (76,252) |
| Interest payable and similar charges | 2 | 5,822 | 9,707 |
| Interest receivable and similar income | 3 | 48 | 5,041 |
| LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION | 4 | (168,998) | (80,918) |
| Loss brought forward | | (225,606) | (144,688) |
| LOSS CARRIED FORWARD | | (394,604) | (225,606) |

All disclosures relate only to continuing operations.

There are no recognised gains or losses other than the loss for the year.

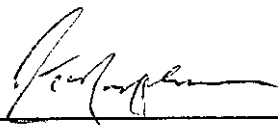
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**FOR THE YEAR ENDED 30 SEPTEMBER 1998**

| | 1998 £ | 1997 £ |
|-----------------------------|-----------|-----------|
| Opening shareholders' funds | (225,506) | (144,588) |
| Loss for the financial year | (168,998) | (80,918) |
| Closing shareholders' funds | (394,504) | (225,506) |

THE EDUCATION EXCHANGE LIMITED**BALANCE SHEET****AS AT 30 SEPTEMBER 1998**


| | Note | 1998 £ | £ | 1997 £ | £ |
|--|------|----------------|------------------|----------------|------------------|
| FIXED ASSETS | | | | | |
| Tangible assets | 7 | | 33,923 | | 25,684 |
| CURRENT ASSETS | | | | | |
| Stocks | 8 | 202,245 | | - | |
| Debtors | 9 | 528,490 | | 69,758 | |
| Cash at bank and in hand | | 45,635 | | 38,441 | |
| | | <u>776,370</u> | | <u>108,199</u> | |
| CREDITORS - amounts falling due within one year | 10 | <u>241,108</u> | | <u>222,721</u> | |
| NET CURRENT ASSETS/(LIABILITIES) | | | 535,262 | | (114,522) |
| | | | <u>569,185</u> | | <u>(88,838)</u> |
| DEFERRED INCOME | 11 | | <u>963,689</u> | | <u>136,668</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | <u>(394,504)</u> | | <u>(225,506)</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 12 | | 100 | | 100 |
| Profit and loss account | | | <u>(394,604)</u> | | <u>(225,606)</u> |
| Equity shareholders' funds | | | <u>(394,504)</u> | | <u>(225,506)</u> |

Approved by the board on 27 APR 1999 1999 and signed on its behalf by:



 Sir R T S Macpherson

)
)
)
) Directors
)
)
)



 T W Challenor

THE EDUCATION EXCHANGE LIMITED**CASHFLOW STATEMENT****FOR THE YEAR ENDED 30 SEPTEMBER 1998**

| | Note | 1998 £ | 1997 £ |
|---|-----------|---------------|-----------------|
| Net cash inflow/(outflow)from operating activities | A(Page 7) | 34,550 | (50,010) |
| Net cash outflow from returns on investments and servicing of finance | B(Page 7) | (5,774) | (4,666) |
| Net cash outflow for capital expenditure | C(Page 7) | (21,582) | (22,998) |
| Increase/(decrease) in cash in the year | | <u>7,194</u> | <u>(77,674)</u> |
| Reconciliation of net cash inflow/(outflow) to movement in net funds | | | |
| Increase/(decrease) in cash in the year | | <u>7,194</u> | <u>(77,674)</u> |
| Increase/(decrease) in net funds | | 7,194 | (77,674) |
| Net funds at 1 October | | <u>38,441</u> | <u>116,115</u> |
| Net funds at 30 September | D(Page 7) | <u>45,635</u> | <u>38,441</u> |

THE EDUCATION EXCHANGE LIMITED
NOTES TO THE CASHFLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 1998

| | | | |
|-----------|---|------------------|------------------------|
| A. | Reconciliation of operating loss to net cash inflow/ (outflow) from operating activities | 1998 | 1997 |
| | | £ | £ |
| | Operating loss | (163,224) | (76,252) |
| | Depreciation | 13,343 | 5,613 |
| | (Increase)/decrease in stocks | (202,245) | 5,818 |
| | Increase in debtors | (458,732) | (4,202) |
| | Increase in creditors | 18,387 | 67,208 |
| | Increase/(decrease) in deferred income | 827,021 | (48,195) |
| | Net cash inflow/(outflow) from operating activities | <u>34,550</u> | <u>(50,010)</u> |
| B. | Returns on investments and servicing of finance | | |
| | Interest received | 48 | 5,041 |
| | Interest paid | <u>(5,822)</u> | <u>(9,707)</u> |
| | Net cash outflow from returns on investments and servicing of finance | <u>(5,774)</u> | <u>(4,666)</u> |
| C. | Capital expenditure | | |
| | Purchase of tangible fixed assets | <u>(21,582)</u> | <u>(22,998)</u> |
| D. | Analysis of changes in net funds | | |
| | At 1 October | Cashflows | At 30 September |
| | 1997 | 1998 | 1998 |
| | £ | £ | £ |
| | Cash at bank and in hand | 38,441 | 7,194 |
| | | <u>7,194</u> | <u>45,635</u> |

THE EDUCATION EXCHANGE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 1998

1. ACCOUNTING POLICIES

(a) Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

(b) Going Concern

Internet Network Services Limited, the company's parent company, has indicated its intention to procure sufficient financial support to allow the company to continue to trade. The directors consider it appropriate to prepare the accounts on a going concern basis. Should this support cease to be maintained the company would not be able to continue to trade.

(c) Turnover

Turnover represents gross fees receivable for the year exclusive of value added tax. Subscriptions are apportioned over time on a straight line basis.

(d) Depreciation of tangible fixed assets

Fixed assets are being depreciated so as to write them off over their anticipated useful lives at the following annual rates:

Software - 33 1/3% on cost
Computer equipment - 33 1/3% on cost

(e) Stocks

Stocks have been valued at the lower of cost and net realisable value.

2. INTEREST PAYABLE AND SIMILAR CHARGES

| | 1998 £ | 1997 £ |
|---------------------------------------|-------------------|-------------------|
| On amounts owed to group undertakings | 5,822 | 9,707 |
| | <u> </u> | <u> </u> |

3. INTEREST RECEIVABLE AND SIMILAR INCOME

| | | |
|---------------|-------------------|-------------------|
| Bank interest | 48 | 5,041 |
| | <u> </u> | <u> </u> |

4. LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION

Loss on ordinary activities has been arrived at after charging:

| | | |
|------------------------|-------------------|-------------------|
| Directors' emoluments | - | 2,500 |
| Auditors' remuneration | 6,250 | 5,800 |
| Depreciation | 13,343 | 5,613 |
| | <u> </u> | <u> </u> |

THE EDUCATION EXCHANGE LIMITED**NOTES TO THE ACCOUNTS (CONTINUED)****FOR THE YEAR ENDED 30 SEPTEMBER 1998****5. DIRECTORS AND OTHER EMPLOYEES**

The average number of persons employed by the company, including directors, during the year was as follows:

| | 1998 No | 1997 No |
|----------------|------------|------------|
| Technical | 2 | 2 |
| Administration | 3 | 2 |
| | <u>5</u> | <u>4</u> |

Consultancy fees of £nil (1997 : £2,500) were paid in respect of services by Sir R T S Macpherson, a non-executive director.

6. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no liability to U K corporation tax for the year (1997 : same). Trading losses available to be carried forward and set off against future trading profits amount to approximately £330,000 (1997 : £180,000).

7. TANGIBLE FIXED ASSETS

| | Software £ | Computer equipment £ | Total £ |
|-----------------------|---------------|----------------------------|---------------|
| COST | | | |
| At 1 October 1997 | 10,413 | 28,097 | 38,510 |
| Additions | 2,814 | 18,768 | 21,582 |
| | <u>13,227</u> | <u>46,865</u> | <u>60,092</u> |
| At 30 September 1998 | | | |
| DEPRECIATION | | | |
| At 1 October 1997 | 1,419 | 11,407 | 12,826 |
| Provided in year | 3,495 | 9,848 | 13,343 |
| | <u>4,914</u> | <u>21,255</u> | <u>26,169</u> |
| At 30 September 1998 | | | |
| NET BOOK VALUE | | | |
| At 30 September 1998 | <u>8,313</u> | <u>25,610</u> | <u>33,923</u> |
| | | | |
| At 30 September 1997 | <u>8,994</u> | <u>16,690</u> | <u>25,684</u> |

THE EDUCATION EXCHANGE LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 1998

| | | |
|--|-------------------|-------------------|
| 8. STOCKS | 1998 | 1997 |
| | £ | £ |
| Goods for resale | 202,245 | - |
| | <u> </u> | <u> </u> |
| 9. DEBTORS | | |
| Trade debtors | 297,203 | 32,875 |
| Amounts owed by group undertakings | 192,793 | 100 |
| Other debtors | 17,725 | 17,725 |
| Prepayments and accrued income | 20,769 | 19,058 |
| | <u> </u> | <u> </u> |
| | 528,490 | 69,758 |
| | <u> </u> | <u> </u> |
| 10. CREDITORS - amounts falling due within one year | | |
| Trade creditors | 19,564 | 16,939 |
| Amounts owed to group undertakings | 89,868 | 158,244 |
| Taxation and social security | 29,916 | 4,453 |
| Accruals | 101,760 | 43,085 |
| | <u> </u> | <u> </u> |
| | 241,108 | 222,721 |
| | <u> </u> | <u> </u> |
| 11. DEFERRED INCOME | | |
| Deferred subscription income crystallising within one year | 963,689 | 136,668 |
| | <u> </u> | <u> </u> |
| 12. CALLED UP SHARE CAPITAL | | |
| Authorised: | | |
| 100 ordinary shares of £1 each | 100 | 100 |
| | <u> </u> | <u> </u> |
| Allotted and fully paid: | | |
| 100 ordinary shares of £1 each | 100 | 100 |
| | <u> </u> | <u> </u> |
| 13. GUARANTEES | | |

The company has given a guarantee to Midland Bank PLC in respect of facilities available to the company and its parent company, Internet Network Services Limited, incorporating a fixed charge over the company's book debts and a floating charge over its other assets.

At 30 September 1998, the amount outstanding in respect of these facilities was £nil (1997 : £nil).

11.

THE EDUCATION EXCHANGE LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 1998

14. CONTROL AND ULTIMATE PARENT COMPANY

The company is controlled by Internet Network Services Limited, which holds the whole of the company's issued share capital. Group accounts for Internet Network Services Limited are available to the public on payment of the appropriate fee, from Companies Registration Office, Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.

The directors consider Internet Network Services (Holdings) Limited, a company incorporated in the British Virgin Islands, to be the company's ultimate parent company.

15. RELATED PARTY TRANSACTIONS

- (a) The company has taken advantage of the exemption from disclosing transactions with Internet Network Services Limited. These undertakings' results have been included within the consolidated accounts of Internet Network Services Limited.
- (b) As stated above, the company's ultimate parent company is Internet Network Services (Holdings) Limited. The controlling party of that company is an entity known as The JMS Settlement, which is registered in the British Virgin Islands. There were no transactions arising during the year with this entity, nor any outstanding balances at the year end (1997 : same).

The accounts of the company's ultimate parent company are not publicly available and listed below are the transactions with this company:

| | 1998 £ | 1997 £ |
|----------------------|-----------|-----------|
| Licence fee payable | 97,500 | 57,390 |
| Royalties payable | 32,138 | 21,889 |
| Interest payable | 5,822 | 9,707 |
| Creditor at year end | 89,768 | 37,086 |

- (c) TCNS Limited, a company in which T W Challenor has a material interest, received consultancy fees in respect of accountancy services supplied amounting to £nil (1997 : £11,250). At the year end there was an outstanding net debtor balance of £1,132 (1997 : £1,132) brought forward from prior periods.