

UK ONLINE LIMITED
REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 1998

**HORWATH
CLARK WHITEHILL**
Chartered Accountants

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**UK ONLINE LIMITED
DIRECTORS' REPORT
YEAR ENDED 31 DECEMBER 1998**

The directors have pleasure in presenting their report and the financial statements for the year ended 31 December 1998.

ACTIVITIES

The principal activity of the company is that of the provision of Internet Access and Online Services in the United Kingdom.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The directors have continued to develop the business in the light of prevailing trading conditions and the position at 31 December 1998 is reflected in the accounts for the year then ended. The present intention is to continue the development of the existing business of the company. A more detailed review of the company's business and future developments is contained within the accounts of Easynet Group Plc, the company's ultimate parent undertaking.

RESULTS AND DIVIDENDS

The profit and loss account is set out on page 4 and shows the results for the year. The directors do not recommend the payment of a dividend.

DIRECTORS

The directors who served during the year and their beneficial interests in the share capital of the company at the beginning and end of the year were as follows:

	Ordinary shares of 5p each	
	31 December 1998	31 December 1997
G Davies	-	-
G Fenton	-	-
J Protheroe	-	-
D Rowe	-	-

The directors' interests in Easynet Group Plc, the ultimate parent undertaking, are disclosed in that company's financial statements where applicable.


YEAR 2000

The current status of the group in relation to Year 2000 compliance is explained in detail in the directors' report of the ultimate parent undertaking.

AUDITORS

The company has passed elective resolutions which inter alia dispense with the annual re-appointment of auditors and therefore Horwath Clark Whitehill will continue to hold that office until further notice.

By Order of the Board


Director

24/2/1999

UK ONLINE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

It is the purpose of this statement to distinguish the directors' responsibilities for the financial statements from those of the auditors, as stated in their report.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the company's state of affairs at the end of the year and of its profit or loss for the period. 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 assume 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 to enable them to ensure that the financial statements 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 or other irregularities.

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF
UK ONLINE LIMITED**



We have audited the financial statements on pages 4 to 9 which have been prepared under the accounting policies set out on page 6 .

Respective Responsibilities of Directors and Auditors

As described on page 2 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 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 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 the information in the financial statements.

Unqualified Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Horwath Clark Whitehill
Chartered Accountants
and Registered Auditors

24.2.99

UK ONLINE LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £	1997 £
TURNOVER	1b)	1,060,348	867,364
Cost of sales		<u>(139,516)</u>	<u>(133,160)</u>
GROSS PROFIT		920,832	734,204
Administrative expenses		<u>1,002,531</u>	<u>756,529</u>
OPERATING (LOSS)	3	(81,699)	(22,325)
Interest receivable and similar income		169	358
Interest payable and similar charges		<u>(2,055)</u>	<u>(687)</u>
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		(83,585)	(22,654)
Tax on (loss) on ordinary activities	4	<u>-</u>	<u>-</u>
RETAINED (LOSS) FOR THE FINANCIAL YEAR		<u>(83,585)</u>	<u>(22,654)</u>

The profit and loss account contains all the gains and losses recognised in the current and previous year and the retained loss represented the only movement in shareholders' funds during those years.

The notes on pages 6 to 9 form part of these financial statements.

UK ONLINE LIMITED
BALANCE SHEET
31 DECEMBER 1998

	Notes	£	1998 £	1997 £
FIXED ASSETS				
Tangible assets	5		65,949	64,604
CURRENT ASSETS				
Debtors	6	113,033		190,700
Cash at bank and in hand		19,178		18,909
		132,211		209,609
CREDITORS: amounts falling due within one year	7	(483,285)		(475,751)
NET CURRENT (LIABILITIES)			(351,074)	(266,142)
NET (LIABILITIES)			(285,125)	(201,538)
CAPITAL AND RESERVES				
Called up share capital	8		180,803	180,803
Share premium account			2,011,100	2,011,100
Profit and loss account			(2,477,028)	(2,393,441)
SHAREHOLDERS' (DEFICIT)			(285,125)	(201,538)

Approved by the Board on
and signed on its behalf:

} Directors

24/2/1999

The notes on pages 6 to 9 form part of these financial statements.

UK ONLINE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1998

1. ACCOUNTING POLICIES

a) Basis Of Preparation

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards and on the going concern basis.

The directors believe this basis to be appropriate as Easynet Group Plc has indicated its intention to provide sufficient financial support to enable the company to continue to trade until at least 24 February 2000. The directors have also estimated the company's likely cash requirements until that date and believe Easynet Group Plc has adequate resources to provide the necessary support.

b) Turnover and Revenue Recognition

Turnover represents the invoiced value of sales excluding value added tax. Invoiced subscription revenues are recognised in full at the commencement of the subscription contract. The company's costs of fulfilling its obligations under the terms of subscription contracts are accrued at the commencement of the subscription period. All turnover arose from the company's principal activity, and arose entirely in the UK.

c) Tangible Fixed Assets

Depreciation on tangible fixed assets is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:-

Leasehold improvements	- over the period of the lease
Fixtures, fittings and equipment	- 33% per annum
Computer equipment	- 50% per annum
Internet access equipment	- 50% per annum

d) Leases

The costs of operating leases are charged to the profit and loss account as they accrue.

e) Foreign Exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

f) Deferred Taxation

Deferred taxation is provided on material timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is expected that the tax will arise.

g) Pension Costs

Pension costs are charged to the profit and loss account as they accrue and relate to contributions made by the company into employees' personal pension schemes.

UK ONLINE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 DECEMBER 1998

2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES	1998	1997
	£	£
Directors' emoluments		
Remuneration:		
Salaries and taxable benefits	38,000	32,250
Company contributions to money purchase schemes	1,900	1,479
	39,900	33,729
Number of directors:	No	No.
Accruing benefits under money purchase schemes	1	1
Employees		
	£	£
Staff costs (including directors) in the year:		
Wages and salaries	630,158	394,379
Social security costs	53,565	32,017
Other pension costs	9,642	4,467
	693,365	430,863
Average number of persons employed by the company in the year:	No.	No.
Sales and distribution	2	2
Administration and technical	56	32
	58	34
3. OPERATING (LOSS)	£	£
Is stated after charging:		
Management charge from ultimate parent undertaking	33,750	-
Depreciation	62,451	139,695
Auditors' remuneration - as auditors	5,350	5,025
- other services	2,325	300
Operating lease rentals - land and buildings	41,470	41,470
- plant and machinery	11,163	7,632

UK ONLINE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 DECEMBER 1998

4. TAX ON (LOSS) ON ORDINARY ACTIVITIES

No corporation tax charge arises as a result of taxable losses incurred in the current and previous years.

5. TANGIBLE FIXED ASSETS

	Plant and machinery etc. £
Cost	
At 1 January 1998	606,357
Additions	63,797
Disposals	<u>(24,750)</u>
At 31 December 1998	<u>645,404</u>
Depreciation	
At 1 January 1998	541,753
Charge for the year	62,451
Disposals	<u>(24,749)</u>
At 31 December 1998	<u>579,455</u>
Net book value	
31 December 1998	<u>65,949</u>
<i>31 December 1997</i>	<i><u>64,604</u></i>

6. DEBTORS

	1998	1997
	£	£
Trade debtors	24,574	13,514
Amount due from Group Undertakings	77,307	160,193
Prepayments and accrued income	<u>11,152</u>	<u>16,993</u>
	<u>113,033</u>	<u>190,700</u>

7. CREDITORS:

Amounts falling due within one year

Trade creditors	31,154	45,942
Amounts due to group undertakings	368,273	335,079
Other creditors	2,183	1,278
Taxation and social security	57,419	67,881
Accruals and deferred income	<u>24,256</u>	<u>25,571</u>
	<u>483,285</u>	<u>475,751</u>

UK ONLINE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 DECEMBER 1998

8. SHARE CAPITAL

	1998 No.	1997 No.
Ordinary shares of 5p each Authorised	<u>4,200,000</u>	<u>4,200,000</u>
Allotted, called up and fully paid	<u>3,616,062</u>	<u>3,616,062</u>

9. COMMITMENTS UNDER OPERATING LEASES

At 31 December 1998, the company had annual commitments under non-cancellable operating leases as set out below:

	1998		1997	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire				
Within one year	-	2,479	-	-
Within two to five years	<u>41,470</u>	<u>28,111</u>	<u>41,470</u>	<u>7,362</u>

10. PENSION OBLIGATIONS

The company participates in a defined contribution money purchase scheme for certain directors and staff. The pension cost for the year was £9,642 (1997: £4,467). At 31 December 1998 there were contributions outstanding of £1,372 (1997: £339).

11. CAPITAL COMMITMENTS

The company had no capital commitments contracted for but not provided for at 31 December 1998 (1997 : £Nil).

12. RELATED PARTY TRANSACTIONS

The company is exempt from disclosing its transactions with fellow group undertakings as a result of it being a 100% subsidiary of the ultimate parent undertaking.

13. ULTIMATE PARENT UNDERTAKING

The directors consider Easynet Group Plc to be the ultimate parent undertaking. Copies of that company's accounts are available from its registered office:-
44 Whitfield Street, London W1P 5RF.