

# **ITNET Holdings Limited**

## **Accounts - 31 December 1997**

Together with Directors' and Auditors' reports

**Registered number: 3036256**

**ITNET Holdings Limited**

## **Board of Directors**

Lord Crickhowell - Non Executive Chairman

B P Blow - Managing Director

R A Catto, D Howe, R J Watts, B R Wells, P J Williamson

R H Lawson - Non Executive

S A Ricketts - Non Executive

## **Secretary**

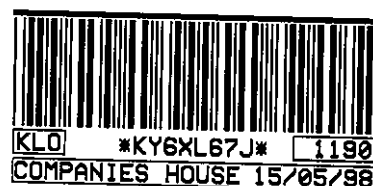
B R Wells

## **Registered Office**

Laburnum House, Laburnum Road, Birmingham, B30 2BD

## **Auditors**

Price Waterhouse, Cornwall Court, 19 Cornwall Street, Birmingham, B3 2DT



*Price Waterhouse*



## **REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF ITNET HOLDINGS LIMITED**

We have audited the accounts on pages 6 to 26 which have been prepared under the historical cost convention accounting policies set out in pages 10 and 11.

### **Respective responsibilities of Directors and Auditors**

As described on page 4 above, the Company's Directors are responsible for the preparation of the accounts and it is our responsibility to form an independent opinion, based on our audit, on those accounts and 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 and 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 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 the information in the accounts.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of the Company and of the Group as at 31 December 1997 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**  
**Chartered Accountants**  
**and Registered Auditors**

**11 May 1998**

## **Directors' report**

For the year ended 31 December 1997

---

The Directors submit their report and the audited accounts for the year ended 31 December 1997.

### **Results and dividends**

The profit on ordinary activities of the Group for the financial year, after taxation, was £3,465,000 (1996: Profit £2,636,000). Preference dividends of £334,000 (1996: £295,000) and cumulative preferential dividends on 'A' ordinary shares of £255,000 (1996: £184,000) have been accrued.

### **Review of business**

The principal activity of the Group is the provision of IT outsourcing and related administrative services in three main sectors; local government, central government and commercial.

### **Fixed assets**

Details of changes in tangible fixed assets are given in note 9 to the accounts.

### **Directors and their interests**

The Directors at the date of this report are as stated on page 1, all of whom held office throughout the year.

The Directors' interests, either directly or indirectly, in the share capital of the Company are as follows:

	Ordinary Class B 10p Shares Number
B P Blow	413,200
R A Catto	103,290
D Howe	309,900
R J Watts	309,900
B R Wells	103,300
P J Williamson	309,900

R H Lawson is a Director of 3i plc, whose parent undertaking is the beneficial owner of 5,394,192 1p preference shares and 1,008,260 1p ordinary shares.

At no time during the period has any Director been materially interested in any contract with the Group which was significant in relation to its business (other than the Directorship of S A Ricketts in companies serviced by ITNET Limited).

#### **Directors' and Officers' liability insurance**

The Group has maintained insurance to cover Directors' and Officers' liability.

#### **Charitable and political donations**

No charitable or political donations have been made by the Group during the year.

#### **Disabled persons**

The Group always carefully considers any application for employment by registered disabled persons. In the event of any employee becoming disabled, it is standard practice to offer other employment in all but the most extreme circumstances, with the appropriate training where necessary. The Group's training, development and promotion policies provide equal opportunities for minority groups, including the disabled.

#### **Employee involvement**

The policy of informing and consulting with employees is maintained by means of regular team briefs and meetings, and employees are encouraged to present their views and suggestions in respect of the Group's performance. An employee share ownership trust is in operation, and as a result of this, over 80% of employees have been allocated shares in ITNET Holdings Limited.

## **Post balance sheet events**

On 27 April 1998, ITNET Holdings Limited announced its intention to seek a listing on the London Stock Exchange. The Company will change its name to ITNET plc.

At the date of this report 90% of the shareholders have agreed to the flotation of the Company. The shares will be reclassified and approximately 40% placed with institutional investors. It is expected that this will take place in early summer 1998.

It is the intention of the Board to use the proceeds of the flotation to pay off all outstanding debts and to use the balance to fund future acquisitions.

## **Auditors**

A resolution to re-appoint Price Waterhouse as Auditors will be put to the members at the Annual General Meeting.

## **Statement of 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 Group and of the profit or loss for that year. 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the accounts, and that the accounts have been prepared on a going concern basis.

Although not obliged to, the Board conform where appropriate to the principles and standards of good corporate governance as applicable to public limited companies. A Remuneration Committee and Audit Committee of the Board have been appointed.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. These duties are principally discharged through the Audit Committee of the Board.

Signed on behalf of the Board

Laburnum House, Laburnum Road, Birmingham, B30 2BD  
11 May 1998

B P Blow  
Managing Director

**ITNET Holdings Limited**  
**Group profit and loss account**  
For the year ended 31 December 1997

	Notes	1997 £'000	1996 £'000
<b>Turnover</b>		81,713	68,675
Cost of Sales		<u>(67,608)</u>	<u>(57,295)</u>
<b>Gross profit</b>		14,105	11,380
Other operating expenses	2	<u>(8,160)</u>	<u>(6,521)</u>
<b>Operating profit</b>		5,945	4,859
Interest receivable	3	330	223
Interest payable	4	<u>(1,176)</u>	<u>(1,399)</u>
<b>Profit on ordinary activities before taxation</b>	5	5,099	3,683
Tax on profit on ordinary activities	7	<u>(1,634)</u>	<u>(1,047)</u>
<b>Profit on ordinary activities after taxation</b>		3,465	2,636
Dividends paid and proposed (including non equity interests)	8	<u>(1,029)</u>	<u>(896)</u>
<b>Retained profit for the financial year</b>	19	<u><u>2,436</u></u>	<u><u>1,740</u></u>

The accompanying notes are an integral part of this profit and loss account. All activities are continuing operations.

The Company profit after taxation for the financial year is £1,071,000.

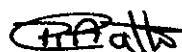
There are no recognised gains/losses other than the profit for the year for the Company or the profit for the Group.

There is no material difference between the profit and loss account and the results on an unmodified historical cost basis for the Company or the Group.

**ITNET Holdings Limited**  
**Group balance sheet**  
As at 31 December 1997

	Notes	1997 £'000	1996 £'000
<b>Fixed assets</b>			
Tangible assets	9	<u>8,750</u>	<u>6,229</u>
<b>Current assets</b>			
Stocks	12	324	341
Debtors	13	15,583	13,325
Investments	11	-	100
Cash at bank and in hand		<u>6,081</u>	<u>7,882</u>
		21,988	21,648
<b>Creditors: Amounts falling due within one year</b>	14	<u>(26,984)</u>	<u>(21,715)</u>
<b>Net current liabilities</b>		(4,996)	(67)
<b>Total assets less current liabilities</b>		3,754	6,162
<b>Creditors: Amounts falling due after more than one year</b>	15	(8,349)	(13,985)
<b>Provisions for liabilities and charges</b>	16	-	<u>(459)</u>
<b>Net liabilities</b>		<u>(4,595)</u>	<u>(8,282)</u>
<b>Capital and reserves</b>			
Called-up share capital	18	514	501
Share premium account	19	10,654	9,416
Profit and loss account	19	<u>4,060</u>	<u>1,624</u>
<b>Total shareholders' funds - gross</b>		15,228	11,541
Goodwill written off	19	<u>(19,823)</u>	<u>(19,823)</u>
<b>Total shareholders' funds - net</b>	20	<u>(4,595)</u>	<u>(8,282)</u>
Equity		(15,894)	(18,291)
Non equity		<u>11,299</u>	<u>10,009</u>
<b>Total shareholders' funds - net</b>	20	<u>(4,595)</u>	<u>(8,282)</u>

Signed on behalf of the Board



R A Catto  
11 May 1998

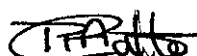
Director

The accompanying notes are an integral part of this balance sheet.

**ITNET Holdings Limited**  
**Company balance sheet**  
As at 31 December 1997

	Notes	1997 £'000	1996 £'000
<b>Fixed assets</b>			
Investments	10	<u>26,342</u>	<u>26,342</u>
<b>Current assets</b>			
Debtors	13	1,658	2,998
Investments	11	-	300
Cash at bank and in hand		<u>-</u>	<u>66</u>
		1,658	3,364
<b>Creditors: Amounts falling due within one year</b>	14	<u>(10,633)</u>	<u>(6,234)</u>
<b>Net current liabilities</b>		<u>(8,975)</u>	<u>(2,870)</u>
<b>Total assets less current liabilities</b>		17,367	23,472
<b>Creditors: Amounts falling due after more than one year</b>	15	<u>(6,153)</u>	<u>(13,551)</u>
<b>Net assets</b>		<u><u>11,214</u></u>	<u><u>9,921</u></u>
<b>Capital reserves</b>			
Called-up share capital	18	514	501
Share premium account	19	10,654	9,416
Profit and loss account	19	<u>46</u>	<u>4</u>
<b>Total shareholders' funds</b>	20	<u><u>11,214</u></u>	<u><u>9,921</u></u>
Equity		(85)	(88)
Non equity		<u>11,299</u>	<u>10,009</u>
<b>Total shareholders' funds</b>	20	<u><u>11,214</u></u>	<u><u>9,921</u></u>

**Signed on behalf of the Board**



R A Catto  
11 May 1998

Director

The accompanying notes are an integral part of this balance sheet.

**ITNET Holdings Limited**  
**Group cash flow statement**  
For the year ended 31 December 1997

	Notes	1997 £'000	1996 £'000
Net cash inflow from operating activities	21	10,190	13,296
Returns on investments and servicing of finance	21	(1,540)	(1,583)
Taxation		(1,214)	(1,611)
Capital expenditure		<u>(2,931)</u>	<u>(1,881)</u>
		4,505	8,221
Equity dividends paid		<u>(184)</u>	<u>-</u>
		4,321	8,221
Financing	21	<u>(6,122)</u>	<u>(1,300)</u>
<b>Increase in cash</b>		<u><b>(1,801)</b></u>	<u><b>6,921</b></u>

**Reconciliation of net cash flow to movement in net debt**

Increase in cash in the year	(1,801)	6,921
Decrease in debt and lease financing	7,383	1,300
New finance leases	<u>(2,589)</u>	<u>(634)</u>
Change in net debt	2,993	7,587
Net debt at 1 January 1997	<u>(7,652)</u>	<u>(15,239)</u>
Net debt at 31 December 1997	<u><b>(4,659)</b></u>	<u><b>(7,652)</b></u>

## Notes to accounts

For the year ended 31 December 1997

### 1. Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and with the preceding year, are as follows:

#### (a) *Basis of accounting*

The accounts are prepared under the historical cost convention and modified in accordance with applicable accounting standards.

#### (b) *Research and development expenditure*

Research and development expenditure is written off in the financial year in which it is incurred.

#### (c) *Tangible fixed assets*

Fixed assets are shown at cost.

Depreciation is provided on the original cost or subsequent valuation of assets on a straight-line basis over their estimated useful lives. The principal rates used are as follows:

Computer equipment	2-5 years (50%-20% per annum)
Plant	8 years (12.5% per annum)
Office furniture and fittings	8 years (12.5% per annum)
Motor vehicles	4 years (25% per annum)

In specific cases, higher depreciation rates are used, (for example, for equipment subject to technological changes or equipment with a high obsolescence factor). Capital work-in-progress is not depreciated. In addition, some items of furniture are written off in the year of addition.

#### (d) *Stocks and work-in-progress*

Stocks and work-in-progress are stated at the lower of cost and net realisable value.

#### (e) *Profit recognition on contracting activities*

Revenue and costs on contracts are taken on an incurred basis with profits only being taken when the contract's outcome can be foreseen with reasonable certainty. On high value, long term contracts, with an uneven cost profile, profit is taken on the average contract margin basis.

#### (f) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

#### (g) *Pension costs*

The costs of providing pensions and other termination benefits are charged to the profit and loss account on a consistent basis over the expected service lives of the employees. Such costs are calculated by reference to actuarial valuations, and

## Notes to accounts (continued)

variations from such regular costs are spread over the remaining service lives of the current employees.

### (h) *Fixed assets held under leases*

Where assets are financed by leasing agreements which give rights approximating to ownership ("finance leases") the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the profit and loss account on the same basis as shown in (1c) above. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account.

All other leases are operating leases and the relevant annual rentals are charged wholly to the profit and loss account.

### (i) *Turnover*

Turnover comprises the invoiced value of sales, excluding value added tax and trade discounts, of goods and services provided in the normal course of business. The Directors believe that the Company has only one class of business.

### (j) *Investments*

Investments are stated at cost less any permanent diminution in value. Current asset investments are valued at the lower of cost and net realisable value.

### (k) *Goodwill*

Goodwill is written off to reserves in the year of acquisition. Goodwill represents the difference between the cost of acquisition and the fair value of the net tangible assets acquired.

### (l) *Deferred Taxation*

Deferred taxation is taken into account to the extent that a liability will probably arise in the foreseeable future, and is calculated at the taxation rates expected to apply at that time.

## Notes to accounts (continued)

### 2. Other operating expenses

	1997 £'000	1996 £'000
Distribution costs including marketing	3,287	2,540
Administration expenses	<u>4,873</u>	<u>3,981</u>
	<u>8,160</u>	<u>6,521</u>

### 3. Interest receivable

Bank interest	<u>330</u>	<u>223</u>
---------------	------------	------------

Interest is receivable on loans wholly repayable within five years

### 4. Interest payable and similar charges

Interest payable is on bank loans and overdrafts and other loans repayable as follows:

Within one to five years	1,000	670
After more than five years	-	628
Finance charges	93	101
Interest on finance leases	<u>83</u>	<u>-</u>
	<u>1,176</u>	<u>1,399</u>

## Notes to accounts (continued)

### 5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1997 £'000	1996 £'000
Depreciation on tangible fixed assets		
- owned	2,874	2,578
- assets under finance leases	249	-
Profit on disposal of fixed assets	1	-
Depreciation on own shares	100	-
Operating lease rentals:		
- properties	1,056	1,118
- plant & machinery	2,238	3,009
Auditors' remuneration - audit	32	30
- non audit	35	44
- other services	94	25
Staff costs (see note 6)	<u>34,855</u>	<u>27,947</u>

Included in the audit figure is £4,125 in respect of the auditors remuneration for the audit of the company (1996 £4,000).

### 6. Staff costs

(a) *Employee costs during the year amounted to:*

Wages and salaries	30,093	24,184
Social security costs	2,693	2,121
Other pension costs	<u>2,069</u>	<u>1,642</u>
	<u>34,855</u>	<u>27,947</u>

## Notes to accounts (continued)

### 6. Staff costs (continued)

(b) *The average weekly number of employees including Directors during the year was as follows:*

	1997	1996
IT and related administrative services	1,280	1,016
Administration	<u>57</u>	<u>42</u>
	<u>1,337</u>	<u>1,058</u>

(c) *Directors' remuneration*

	1997 £'000	1996 £'000
(a) Emoluments (excluding pension contributions)	<u>878</u>	<u>829</u>
Including:		
Chairman	50	43
Highest paid director	194	179
With accrued defined benefits pension of	7	-
(b) Pension schemes		
Company contributions paid to money purchase pension scheme	10	5
Number of directors with benefits accruing under:		
- money purchase scheme	2	1
- defined benefit	<u>6</u>	<u>6</u>

## Notes to accounts (continued)

### 7. Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	1997 £'000	1996 £'000
Corporation tax payable at 31.5% (1996: 33%)	1,844	1,336
Deferred taxation charge	-	45
Prior year tax credit	<u>(210)</u>	<u>(334)</u>
	<u>1,634</u>	<u>1,047</u>

The movement on deferred tax is set out in note 17.

If the full potential deferred tax asset, excluding pensions, had been recognised on an ongoing basis, there would have been an additional tax charge of £218,000 (1996 charge: £51,000).

### 8. Dividends

Equity:

Cumulative 'A' ordinary shares	255	184
Non equity:		
Cumulative preference shares	<u>774</u>	<u>712</u>
	<u>1,029</u>	<u>896</u>

## Notes to accounts (continued)

### 9. Tangible fixed assets

	Plant and Machinery £'000	Motor Vehicles £'000	Total £'000
<b>Cost or valuation</b>			
At 1 January 1997	26,472	-	26,472
Additions	5,140	515	5,655
Disposals	<u>(15)</u>	<u>-</u>	<u>(15)</u>
At 31 December 1997	<u>31,597</u>	<u>515</u>	<u>32,112</u>
<b>Depreciation</b>			
At 1 January 1997	20,243	-	20,243
Charge	3,109	14	3,123
Disposals	<u>(4)</u>	<u>-</u>	<u>(4)</u>
At 31 December 1997	<u>23,348</u>	<u>14</u>	<u>23,362</u>
<b>Net book value</b>			
At 31 December 1997	<u>8,249</u>	<u>501</u>	<u>8,750</u>
At 31 December 1996	<u>6,229</u>	<u>-</u>	<u>6,229</u>

Assets held under finance leases within plant and machinery included above are at a cost of £3,289,508 (1996: £684,000) and accumulated depreciation of £248,855 (1996 nil).

## Notes to accounts (continued)

### 10. Fixed assets - investments

	1997 £'000	1996 £'000
Cost of investment	<u>26,342</u>	<u>26,342</u>

On 16 November 1995, ITNET Holdings Limited acquired 100% of the ordinary share capital of ITNET Limited, a company registered in England. The principal activity of the Company is the provision of outsourcing of IT and related administrative services.

The directors do not consider that there has been any diminution in value of this investment since 31 December 1997.

## Notes to accounts (continued)

### 11. Current assets - investments

In November 1995, the Company established the ITNET Employee Benefit Trust (EBT). The trustee of the EBT is Maurant & Co Trustees Limited (the "Trustee"), an independent professional trust company resident in Jersey.

The EBT is a discretionary trust for the benefit of employees (excluding executive directors and officers). The EBT provides for the issue of shares to the employees of ITNET Limited at the discretion of the Trustee, acting upon the recommendation of a committee comprising three executive directors.

The EBT has purchased an aggregate of 1,543,300 ordinary shares of the Company. At 31 December 1997 the Trustee owned 104,765 ordinary shares. The assets, liabilities and costs of the EBT have been incorporated into the Company's financial statements.

	Group 1997 £'000	Company 1997 £'000	Group 1996 £'000	Company 1996 £'000
Own shares	300	300	300	300
Depreciation	(300)	(300)	(200)	—
Net book value at 31 December 1997	<u>—</u>	<u>—</u>	<u>100</u>	<u>300</u>

### 12. Stocks and work -in-progress

	Group 1997 £'000	Company 1997 £'000	Group 1996 £'000	Company 1996 £'000
Work-in-progress	168	-	160	-
Consumables	<u>156</u>	<u>—</u>	<u>181</u>	<u>—</u>
	<u>324</u>	<u>—</u>	<u>341</u>	<u>—</u>

## Notes to accounts (continued)

### 13. Debtors

	Group 1997 £'000	Company 1997 £'000	Group 1996 £'000	Company 1996 £'000
Amounts falling due within one year:				
Trade debtors	10,843	-	8,333	-
Amounts owed by subsidiary undertaking	-	-	-	2,000
Prepayments and accrued income	4,098	2	3,810	-
Loans to employees	54	-	41	-
ACT recoverable	588	504	1,141	246
Group relief receivable	-	1,152	-	752
	<u>15,583</u>	<u>1,658</u>	<u>13,325</u>	<u>2,998</u>

### 14. Creditors

Trade creditors	6,694	-	4,645	-
Other creditors:				
- UK corporation tax payable	1,097	-	714	-
- VAT	1,553	-	2,159	-
- loan from Cadbury Schweppes plc	1,161	-	1,705	-
- ACT payable	148	148	120	120
- other taxation & social security	1,116	-	706	-
- amounts under finance leases	644	-	200	-
Accruals and deferred income	12,583	178	10,080	232
Amounts owed to subsidiary undertaking	-	8,319	-	4,496
Other loans	1,398	1,398	907	907
Proposed dividend	590	590	479	479
	<u>26,984</u>	<u>10,633</u>	<u>21,715</u>	<u>6,234</u>

The loan from Cadbury Schweppes plc relates to a loan provided in respect of the ACT arising on the dividend paid in the year ended 31 December 1995.

The amount of future payments under finance leases is as follows:

	1997 £'000	1996 £'000
Payable within one year	644	200
Payable between one and five years	2,175	434
Payable after more than five years	21	-
	<u>2,840</u>	<u>634</u>

# Notes to accounts (continued)

## 15. Creditors - amounts falling due after more than one year

	Group 1997 £'000	Company 1997 £'000	Group 1996 £'000	Company 1996 £'000
Loans (including finance leases) falling due:				
Between one and two years	1,683	1,683	1,584	1,150
Between two and five years	6,909	4,734	6,030	6,030
After more than five years	<u>21</u>	<u>-</u>	<u>6,720</u>	<u>6,720</u>
	8,613	6,417	14,334	13,900
Less finance costs	<u>(264)</u>	<u>(264)</u>	<u>(349)</u>	<u>(349)</u>
	<u>8,349</u>	<u>6,153</u>	<u>13,985</u>	<u>13,551</u>

The amount repayable by instalments, any of which are repayable after the five year period, amounts to £8,613,000 (1996: £13,900,000).

## 16. Provisions for liabilities and charges

	Group Pension £'000
At 1 January 1997	459
Utilisation of pension accrual	<u>(459)</u>
At 31 December 1997	<u>-</u>

Details of the pension arrangements are set out in note 23.

## 17. Deferred taxation

Deferred taxation assets are as follows:

	Provided 1997 £'000	Full Potential 1997 £'000	Provided 1996 £'000	Full Potential 1996 £'000
Accelerated capital allowances	-	(751)	-	(822)
Short term timing differences	<u>-</u>	<u>(144)</u>	<u>-</u>	<u>(436)</u>
	<u>-</u>	<u>(895)</u>	<u>-</u>	<u>(1,258)</u>

## Notes to accounts (continued)

### 18. Called-up share capital

	Authorised 1997 £'000	Allotted 1997 £'000	Authorised 1996 £'000	Allotted 1996 £'000
Equity:				
Ordinary class A1 shares of 1p each	23	20	23	20
Ordinary class A2 shares of 1p each	10	-	10	-
Ordinary class B shares of 10p each	155	155	155	155
Ordinary class C shares of 10p each	77	77	77	77
Ordinary class D shares of 10p each	<u>154</u>	<u>154</u>	<u>154</u>	<u>154</u>
	<u>419</u>	<u>406</u>	<u>419</u>	<u>406</u>
Non-equity:				
Preference shares of 1p each, class A1	120	108	120	95
Preference shares of 1p each, class A2	<u>59</u>	<u>-</u>	<u>59</u>	<u>-</u>
	<u>179</u>	<u>108</u>	<u>179</u>	<u>95</u>
	<u>598</u>	<u>514</u>	<u>598</u>	<u>501</u>

The Preference Shares carry a dividend of 7.5 pence per share per annum, payable half yearly in arrears on 31 July and 31 January. The dividend rights are cumulative.

The A1 and A2 Ordinary Shares carry a cumulative preferential net cash dividend, the "participating dividend", equal to 5% of profit on ordinary activities before taxation of the Company and subsidiaries for the financial periods from the date of subscription to 31 December 1998, and 10% thereafter.

The B, C and D Shares do not carry any right to a dividend before 31 December 1999. Thereafter a dividend may not be declared or paid unless and until the preference and participating dividends have been paid in full and all actual or contingent liabilities under the legally binding guarantees given by the former parent undertaking and owner of the Ordinary C Shares have been discharged.

The Board of Directors may, provided that the holders of 75% of the nominal value of the A Shares and of the C Shares agree to pay a dividend on the D Shares prior to 31 December 1999.

The B, C and D Shares rank pari passu in all respects and constitute one class of share.

## Notes to accounts (continued)

The Preference Shares, D Shares and Deferred Shares if any, are non-voting. The holders of the other shares are entitled to one vote per share held.

The Preference Shares are due to be redeemed, at £1 per share, in three equal instalments on 31 December 2004, 2005 and 2006.

On a winding up, the priority is:

First call	-	£1 per Preference Shares and any arrears
Second call	-	10 pence per A Share and any arrears
Third call	-	16.1 pence per B Share
	-	16.1 pence per C Share
	-	19.4 pence per D Share
Fourth call	-	£10,000 per share on each of the A, B, C and D Shares
Fifth call	-	Deferred Shares at nominal value
Sixth call	-	the remaining balance is to be shared equally between A, B, C and D Shares irrespective of their nominal value.

Transferable warrants to subscribe for 308,785 A1 ordinary shares were issued on 16 November, 1995. These warrants entitle the bearer to subscribe for A1 ordinary shares at a price of 10 pence each. All shares issued following exercise of the warrants will rank pari passu in all respects with other issued A1 ordinary shares of the company.

The accrual of fixed cumulative preference dividends for the year to 31 December 1997 amounted to £334,375.

## 19. Reserves

	Total	Profit and Loss Account	Share Premium	Goodwill
The Group	£'000	£'000	£'000	£'000
At 1 January 1997	(8,783)	1,624	9,416	(19,823)
Movement for the year	<u>3,674</u>	<u>2,436</u>	<u>1,238</u>	-
At 31 December 1997	<u>(5,109)</u>	<u>4,060</u>	<u>10,654</u>	<u>(19,823)</u>

	Total	Profit and Loss Account	Share Premium
The Company	£'000	£'000	£'000
At 1 January 1997	9,420	4	9,416
Movement for the year	<u>1,280</u>	<u>42</u>	<u>1,238</u>
At 31 December 1997	<u>10,700</u>	<u>46</u>	<u>10,654</u>

## Notes to accounts (continued)

### 19. Reserves (continued)

As permitted by section 230 of the Companies Act 1985, ITNET Holdings Limited has not presented its own profit and loss account.

### 20. Reconciliation of movements in shareholders' funds

	Group	Company	Group	Company
	1997	1997	1996	1996
	£'000	£'000	£'000	£'000
Profit for the financial year	3,465	1,071	2,636	1,184
Dividends	<u>(1,029)</u>	<u>(1,029)</u>	<u>(896)</u>	<u>(896)</u>
	2,436	42	1,740	288
Share Capital subscribed	<u>1,251</u>	<u>1,251</u>	<u>-</u>	<u>-</u>
Net addition to shareholders funds	3,687	1,293	1,740	288
Opening shareholders' funds	<u>(8,282)</u>	<u>9,921</u>	<u>(10,022)</u>	<u>9,633</u>
Closing shareholders' funds	<u>(4,595)</u>	<u>11,214</u>	<u>(8,282)</u>	<u>9,921</u>

### 21. Cash flow statement

#### (a) Net cash inflow from operating activities

	1997	1996
	£'000	£'000
Operating profit	5,945	4,859
Depreciation on fixed assets	3,123	2,578
Depreciation on own shares	100	-
(Increase)/decrease in debtors	(2,801)	3,080
Increase in stocks	(17)	(199)
Increase in creditors	<u>3,840</u>	<u>2,978</u>
	<u>10,190</u>	<u>13,296</u>

# Notes to accounts (continued)

	1997 £'000	1996 £'000
<b>(b) Returns on investments and servicing of finance</b>		
Interest received	330	223
Interest paid	(1,053)	(1,303)
Interest element of finance lease rentals paid	(83)	-
Dividend paid on non equity shares	<u>(734)</u>	<u>(503)</u>
	<u>(1,540)</u>	<u>(1,583)</u>
<b>(c) Capital expenditure</b>		
Payments to acquire tangible fixed assets	(2,942)	(1,881)
Receipts from sales of tangible fixed assets	<u>11</u>	<u>-</u>
	<u>(2,931)</u>	<u>(1,881)</u>
<b>(d) Financing</b>		
Repayment of amounts borrowed	(7,000)	(1,300)
Issue of preference share capital	1,250	-
Capital element of finance lease repayments	<u>(372)</u>	<u>-</u>
	<u>(6,122)</u>	<u>(1,300)</u>
<b>(e) Analysis of changes in net debt</b>		

	At 1 January 1997 £'000	Cashflows £'000	New Finance Leases £'000	Other £'000	At 31 December 1997 £'000
Cash in hand, at bank	7,882	(1,801)	-	-	6,081
Debt due within 1 year	(1,000)	1,000	-	(1,483)	(1,483)
Debt due after 1 year	<u>(13,900)</u>	<u>6,000</u>	<u>-</u>	<u>1,483</u>	<u>(6,417)</u>
	(14,900)	7,000	-	-	(7,900)
Finance Leases	<u>(634)</u>	<u>383</u>	<u>(2,589)</u>	<u>-</u>	<u>(2,840)</u>
Total	<u>(7,652)</u>	<u>5,582</u>	<u>(2,589)</u>	<u>-</u>	<u>(4,659)</u>

## Notes to accounts (continued)

### 22. Guarantees and other financial commitments

#### (a) Capital commitments

At the end of the year, capital commitments were:

	Group 1997 £'000	Company 1997 £'000	Group 1996 £'000	Company 1996 £'000
Contracted for but not provided for	<u>114</u>	<u>-</u>	<u>202</u>	<u>-</u>

#### (b) Commitments under operating leases

During the next year, the Group is contracted to make payments under operating leases which mature as follows:

	Property 1997 £'000	Plant and Computer Equipment 1997 £'000
Within one year	-	-
Between one and five years	148	1,887
After more than five years	<u>970</u>	<u>-</u>
	<u>1,118</u>	<u>1,887</u>

All the above under plant and computer equipment refers to an operating lease in the name of an ITNET Ltd customer, although ITNET shares joint and several liability to discharge the payment.

#### (c) Charges

The undertaking, property and assets of the Group are subject to fixed and floating charges in favour of ITNET Holdings Limited's bankers.

### 23. Pension arrangements

As part of the sale agreement between ITNET Holdings Limited and Cadbury Schweppes plc, arrangements were made for ITNET Limited members to continue as members of the Cadbury Schweppes Pension Scheme until no later than 1 April 1997.

## **Notes to accounts (continued)**

ITNET Holdings Limited has set up a new pension scheme which is broadly similar to the Cadbury Schweppes scheme. Members have the option to transfer to this scheme during 1997 and 338 members transferred with funds of £12,690,900 as at 1 April 1997 agreed between the respective actuaries.

In addition ITNET Holdings Limited operates a money purchase (defined contribution) scheme principally for new entrants. The funds are held on an individual basis.

The total pension costs for the Company were £2,069,000 (1996: £1,642,000), which included the appropriate pension costs of the Cadbury Schweppes Pension Scheme, were assessed by independent qualified actuaries based on the latest actuarial assessment.

### **24. Related Parties**

There are no related party disclosures to disclose in this year's accounts, in accordance with FRS8, "Related Party Transactions".