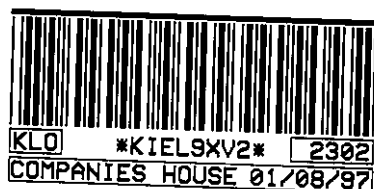


INTERNET NETWORK SERVICES LIMITED
(FORMERLY LABALITE LIMITED)

DIRECTORS' REPORT AND ACCOUNTS

FOR THE PERIOD ENDED 30 SEPTEMBER 1996

REGISTERED NO: 3047165



INTERNET NETWORK SERVICES LIMITED
(FORMERLY LABALITE LIMITED)

Directors: Sir T Macpherson (Chairman) (Appointed 4 May 1995)
T W Challenor (Managing Director) (Appointed 4 May 1995)
R Almeida (Appointed 1 January 1996)
S J Coles B.A.F.C.A. (Appointed 5 July 1996)

DIRECTORS' REPORT

The directors submit their report and the group accounts for the period ended 30 September 1996.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The group's principal activity during the period was the provision of Internet and Network services.

The company was incorporated on 19 April 1995 under the name of Labalite Limited. The present company name was changed on 15 May 1995 and trading commenced on 19 July 1995.

During the year, the company acquired a subsidiary undertaking, and the profit and loss account for the group is set out on page 4 of these accounts.

Despite the loss incurred, the directors consider the financial position at the period end to be satisfactory.

Since the year end the directors of the parent company (Internet Network Services (Holdings) Limited) have received confirmation of funding from a private equity fund.

DIRECTORS RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the affairs of the company and of the profit or loss for 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 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 do not recommend that any dividend be declared.

INTERNET NETWORK SERVICES (UK) LIMITED
(FORMERLY LABALITE LIMITED)

DIRECTORS REPORT (CONTINUED)

ISSUE OF SHARE CAPITAL

During the period the company issued 25,000 ordinary shares of £1 each to provide working capital.

DIRECTORS AND INTERESTS IN SHARES

The directors throughout the period were as stated at the head of this report.

No director of the company had an interest in the shares of the company as defined by the Companies Act 1985.

AUDITORS

A resolution will be proposed at the annual general meeting to appoint Moores Rowland as auditors to the company for the ensuing year.

Registered Office

Cliffords Inn
Fetter Lane
London
EC4A 1AS

By order of the Board



N J L Steel
Secretary

31st July 1997

AUDITORS' REPORT TO THE MEMBERS OF
INTERNET NETWORK SERVICES LIMITED

We have audited the accounts set out on pages 4 to 14.

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 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 information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Moores Rowland
Chartered Accountants
Registered Auditors
Chelmsford

Moores Rowland

31st July 1997

INTERNET NETWORK SERVICES LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 30 SEPTEMBER 1996

	Note	Continuing Activities 1996 £	Acquisitions 1996 £	Total 1996 £
TURNOVER	1(c)	1,371,359	166,734	1,538,093
COST OF SALES		1,058,598	60,178	1,118,776
GROSS PROFIT		312,761	106,556	419,317
Administrative expenses		595,376	3,374	598,750
OPERATING (LOSS)/PROFIT		(282,615)	103,182	(179,433)
Interest payable	2			5,526
				(184,959)
Investment income	3			398
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION				
CARRIED FORWARD	4			£(184,561)

There are no recognised gains and losses other than the loss for the period.

INTERNET NETWORK SERVICES LIMITED**CONSOLIDATED BALANCE SHEET****AS AT 30 SEPTEMBER 1996**

	Note	£	1996 £
FIXED ASSETS			
Tangible assets	7a		381,532
CURRENT ASSETS			
Stock	10	7,197	
Debtors	11	526,867	
Cash at bank		209,636	
		<u>743,700</u>	
CREDITORS - amounts falling due within one year	12	878,946	
NET CURRENT LIABILITIES			<u>(135,246)</u>
			246,286
DEFERRED INCOME	13		600,096
			<u>£(353,810)</u>
CAPITAL AND RESERVES			
Called up share capital	15		25,000
Profit and loss account			(184,561)
Goodwill reserve	16		(194,249)
Shareholders' funds	14		<u>£(353,810)</u>

Approved by the board on 31st July 1997

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Sir I Macpherson

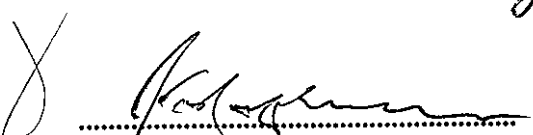
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) Directors
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T W Challenor

INTERNET NETWORK SERVICES LIMITEDBALANCE SHEETAS AT 30 SEPTEMBER 1996

	Note	£	1996 £
FIXED ASSETS			
Tangible assets	7b		373,233
Investments	8		100
			<hr/> 373,333
CURRENT ASSETS			
Stock	10	1,379	
Debtors	11	479,512	
Cash at bank		93,521	
		<hr/> 574,412	
CREDITORS - amounts falling due within one year	12	741,634	
		<hr/>	
NET CURRENT LIABILITIES			(167,222)
			<hr/> 206,111
DEFERRED INCOME	13		415,233
			<hr/> £(209,122)
			<hr/> <hr/>
CAPITAL AND RESERVES			
Called up share capital	15		25,000
Profit and loss account			(234,122)
			<hr/>
Shareholders' funds	14		£(209,122)
			<hr/> <hr/>


Approved by the board on 31st July 1997



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Sir T Macpherson

) Directors



.....

T W Challenor

INTERNET NETWORK SERVICES LIMITED
CONSOLIDATED CASHFLOW STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 1996

	Note	£	1996 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	A		625,304
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		398	
Interest paid		(5,526)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(5,128)
INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(454,574)	
Purchase of subsidiary undertaking	D + E	19,034	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(435,540)
NET CASH INFLOW BEFORE FINANCING			184,636
FINANCING			
Issue of share capital	C		25,000
INCREASE IN CASH AND CASH EQUIVALENTS	B		£209,636

INTERNET NETWORK SERVICES LIMITED
NOTES TO CONSOLIDATED CASHFLOW STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 1996

A. RECONCILIATION OF OPERATING LOSS TO NET CASHFLOW FROM OPERATING ACTIVITIES		£
Operating loss		(179,433)
Depreciation		77,485
Movement in stocks		(2,728)
Movement in debtors		(369,722)
Movement in creditors		613,595
Movement in deferred income		456,107
		<u>£625,304</u>
B. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR		
Net cash inflow and balance at 30 September 1996		<u>£209,636</u>
C. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR		
Issue of share capital for cash.		<u>£25,000</u>
D. PURCHASE OF SUBSIDIARY UNDERTAKING		
Fixed assets		4,443
Stocks		4,469
Debtors		157,145
Cash at bank and in hand		19,134
Creditors		(235,351)
Deferred income		(143,989)
		<u>(194,149)</u>
Goodwill		194,249
		<u>£100</u>
Satisfied By:		
Cash		<u>£100</u>
E. ANALYSIS OF THE NET INFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE PURCHASE OF SUBSIDIARY UNDERTAKINGS		
Cash consideration		(100)
Cash at bank and in hand acquired		<u>19,134</u>
NET INFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE PURCHASE OF SUBSIDIARIES		<u>£19,034</u>

INTERNET NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

a) **Basis of Accounts:**

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

b) **Turnover:**

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

c) **Stock:**

Stock is valued at the lower of cost and net realisable value.

d) **Depreciation of tangible fixed assets:**

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

Leasehold improvements - over life of lease

Fixtures and fittings - 20% on cost

Software - 33 1/3% on cost

Computer Equipment - 33 1/3% on cost

e) **Foreign currencies:**

Foreign currency assets and liabilities have been translated at the rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling on the transaction date.

f) **Operating leases:**

Operating lease payments are included in the profit and loss account as they fall due.

g) **Consolidated accounts:**

The group has taken advantage of Section 230 of the Companies Act 1985 and chosen not to present the profit and loss account of the parent company.

The subsidiary has been consolidated using the acquisition method, with effect from 1 August 1996.

h) **Goodwill:**

Purchased goodwill is written off to reserves in the period of acquisition.

INTERNET NETWORK SERVICES LIMITED**NOTES TO THE ACCOUNTS (CONTINUED)**

2. INTEREST PAYABLE	1996
	£
Bank interest	1,379
On group loans	4,147
	<u>£5,526</u>
3. INVESTMENT INCOME	
Bank deposit interest receivable	398
	<u></u>
4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	
Loss on ordinary activities has been arrived at after charging:	
Depreciation	84,085
Directors' emoluments (note 5)	19,850
Auditors' remuneration	9,000
Operating lease payments on property	22,500
	<u></u>
5. DIRECTORS AND OTHER EMPLOYEES	
The average number of persons employed by the company during the period was as follows:	
	No
Technical	4
Administration	4
Sales	2
	<u>10</u>
	<u></u>
Staff costs include the following:	£
Salaries and wages	86,709
Social security costs	3,962
	<u>£90,671</u>
	<u></u>
The emoluments of the directors, including estimated benefits in kind and excluding pension contributions, were as follows:-	
For services as executives	7,350
	<u></u>

INTERNET NETWORK SERVICES LIMITED**NOTES TO THE ACCOUNTS (CONTINUED)****6. TAX ON LOSS ON ORDINARY ACTIVITIES**

There is no liability to UK Corporation tax due to the availability of trading losses.

7. TANGIBLE FIXED ASSETS**a) Group**

	Leasehold Improvements £	Fixtures and Fittings £	Computer Equipment £	Software £	Total £
COST					
Additions in the period and at 30 September 1996	£23,169	£14,895	£331,040	£96,513	£465,617
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
DEPRECIATION					
Charge for period and at 30 September 1996	£2,630	£3,224	£61,656	£16,575	£84,085
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET BOOK VALUE					
At 30 September 1996	£20,539	£11,671	£269,384	£79,938	£381,532
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

b) Company

	Leasehold Improvements £	Fixtures and Fittings £	Computer Equipment £	Software £	Total £
COST					
Additions in the period and at 30 September 1996	£23,169	£14,895	£316,691	£95,350	£450,105
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
DEPRECIATION					
Charge for period and at 30 September 1996	£2,630	£3,224	£55,218	£15,800	£76,872
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET BOOK VALUE					
At 30 September 1996	£20,539	£11,671	£261,473	£79,550	£373,233
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

INTERNET NETWORK SERVICES LIMITED**NOTES TO THE ACCOUNTS (CONTINUED)**

8.	INVESTMENTS	Group 1996	Company 1996
	Addition in the period and at 30 September 1996	£ - <u> </u>	£100 <u> </u>
9.	PURCHASE OF SUBSIDIARY UNDERTAKING	Percentage of Ordinary shares held	
	The Education Exchange Limited	100%	
	All assets and liabilities were acquired at their book values, with no fair value adjustments being necessary.		
	The transaction has been accounted for as an acquisition.		
	The unaudited profit and loss account of The Education Exchange Limited prior to acquisition based on management accounts, was as follows:		
		Period 1 October 1995 to 31 July 1996	Year ended 30 September 1995
	Turnover	151,158	79,900
	Cost of sales	171,699	65,750
		<u> </u>	<u> </u>
	GROSS (LOSS)/PROFIT	(20,541)	14,150
	Administrative expenses	153,816	31,564
		<u> </u>	<u> </u>
	OPERATING LOSS	(174,357)	(17,414)
	Interest payable	2,532	-
		<u> </u>	<u> </u>
		(176,889)	(17,414)
	Interest receivable	-	54
		<u> </u>	<u> </u>
	LOSS BEFORE AND AFTER TAXATION	<u>£(176,889)</u>	<u>£(17,360)</u>
10.	STOCKS	Group 1996	Company 1996
	Goods for resale	£7,197 <u> </u>	£1,379 <u> </u>
11.	DEBTORS	Group £	Company £
	Trade debtors	448,321	407,188
	Group undertakings	100	18,201
	Directors' loan account	5,257	5,257
	Other debtors	28,917	7,182
	Prepayments and accrued income	44,272	41,684
		<u>£526,867</u>	<u>£479,512</u>

The director's loan account is in respect of T Challenor. The maximum liability during the year amounted to £5,257. The loan is interest free.

INTERNET NETWORK SERVICES LIMITED**NOTES TO THE ACCOUNTS (CONTINUED)**

12. CREDITORS - amounts falling due within one year	Group 1996 £	Company 1996 £
Trade creditors	428,330	396,265
Group undertakings	180,107	101,249
Related company	1,701	1,701
Accruals	230,372	203,983
Other creditors	38,436	38,436
	<u>£878,946</u>	<u>£741,634</u>
13. DEFERRED INCOME		
Deferred income falling due within one year	<u>£600,096</u>	<u>£415,233</u>
14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS		
	£	£
Loss for period	(184,561)	(234,122)
Issue of share capital	25,000	25,000
Goodwill written off on acquisition	(194,249)	-
	<u>£(353,810)</u>	<u>£(209,122)</u>
15. CALLED UP SHARE CAPITAL		
Authorised, allotted and fully paid 25000 ordinary shares of £1 each	<u>£25,000</u>	<u>£25,000</u>
During the period the company issued 25,000 ordinary shares of £1 each to provide working capital.		
16. GOODWILL RESERVE		1996
Written off on acquisition of subsidiary company		<u>£194,249</u>
17. ULTIMATE PARENT COMPANY		

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

INTERNET NETWORK SERVICES LIMITED**NOTES TO THE ACCOUNTS (CONTINUED)****18. OPERATING LEASE COMMITMENTS****Group and Company**

	Within 1 year	1996 2-5 years	After 5 years
Land and buildings	-	-	22,500
Other	1,653	-	-
	<u>1,653</u>	<u>-</u>	<u>22,500</u>

19. CONTINGENT LIABILITIES**Company**

The company has entered into an agreement with Midland Bank plc to guarantee all present and future indebtedness of The Education Exchange Limited with effect from 10 October 1996.

20. POST BALANCE SHEET EVENTS

Since the year end, this company's parent company, Internet Network Services (Holdings) Limited has entered an agreement with a private equity fund.

The funds obtained are to be utilised by existing Group companies for the development of their businesses.

INTERNET NETWORK SERVICES LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 30 SEPTEMBER 1996

	Note	1996 £
TURNOVER	1(b)	1,424,227
COST OF SALES		1,058,598
		<hr/>
		365,629
Administrative expenses		595,376
		<hr/>
OPERATING LOSS		(229,747)
		<hr/>
Interest payable	2	4,597
		<hr/>
		(234,344)
Investment income	3	222
		<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION CARRIED FORWARD	4/5	£(234,122)
		<hr/> <hr/>

INTERNET NETWORK SERVICES LIMITED
CASHFLOW STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 1996

	Note	£	1996 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	F		523,101
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		222	
Interest paid		(4,597)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(4,375)
INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(450,105)	
Acquisition of subsidiary		(100)	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(450,205)
NET CASH INFLOW BEFORE FINANCING			68,521
FINANCING			
Issue of share capital			25,000
INCREASE IN CASH AND CASH EQUIVALENTS	G		<u>£93,521</u>

INTERNET NETWORK SERVICES LIMITED**NOTES TO CASHFLOW STATEMENT****FOR THE PERIOD ENDED 30 SEPTEMBER 1996****F. RECONCILIATION OF OPERATING LOSS TO NET
CASHFLOW FROM OPERATING ACTIVITIES****£**

Operating loss	(229,747)
Depreciation	76,872
Movement in stocks	(1,379)
Movement in debtors	(479,512)
Movement in creditors	741,634
Movement in deferred income	415,233
	<hr/>
	£523,101
	<hr/>

**G. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS
DURING THE YEAR**

Net cash inflow and balance at 30 September 1996	£93,521
	<hr/>