

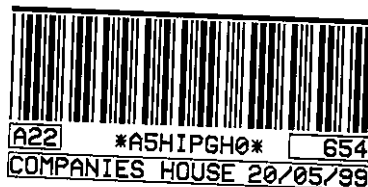
REGISTRAR OF COMPANIES

INTERNET NETWORK SERVICES LIMITED

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 1998

REGISTERED NO: 3047165



INTERNET NETWORK SERVICES LIMITED

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

During the year, the principal activities of the group were the provision of leased line Internet connections, virtual private network services, co-location facilities and some international private circuit services. The markets addressed with these services were principally composed of corporate end-users, although a significant volume of business was also with Telcos and ISPs.

The profit and loss account for the year is set out on page 5 of these accounts.

During the year, the parent company, Internet Network Services (Holdings) Limited, received substantial investment funding from two private equity funds. Of the amount received, some £4,050,000 was invested in the ordinary share capital of this company.

In line with the rapid recruitment of a much larger sales force, the company achieved a substantial increase in the volume of orders taken during the year, which accelerated as the sales force bedded down. This is reflected in the significant increase in group turnover for the year of approximately 77% and a substantial increase in the order book which underpins our confidence for the future. The deferred income balance is also substantially increased, and this represents pre-sold income for 1999.

To cope with this increased level of business, a large capacity 155 megabyte connection to the USA was acquired in May 1998, referred to as Atlantic Crossing I.

The rapid expansion of the sales force and its support groups in the early part of the year required that we kept a strong focus on training and management systems. As a result, the volume of marketing activities was deliberately restricted to a modest level, in order to ensure that our limited staff could professionally manage their workloads.

Despite the relatively low levels of marketing exposure, the sales force demonstrated a high degree of ability and commitment, reflected in the substantial increase in the volume of orders noted above, and the positive trend in the growth of the customer prospect database.

A detailed review of the marketing needs of the business was carried out during the year. The results of this review included an expansion of the marketing department, which identified a need to create and strengthen a suitably powerful image for the business. A high-profile sponsorship opportunity has been identified and is scheduled to begin in March 1999. A suitably broadly aimed marketing campaign will be undertaken during the following 12 months to strengthen the awareness of the group in the UK and, increasingly, in Europe.

The group has further expanded during the year by opening an office in Birmingham and since the year end, an additional office has been opened in Manchester. Growth has been helped by Internet Network Services Limited being granted a telecoms licence, which assists the group in acquiring bandwidth at favourable prices.

During August 1998, the group seized an opportunity to acquire the assets and operations of Wisper Bandwidth Plc. (Wisper), previously a competitor. Whilst this acquisition substantially increased the workload of the management team, they have proved able to cope well with it, and have succeeded in the integration of the Wisper network, its customers, suppliers, employees and systems.

INTERNET NETWORK SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW (CONTINUED)

This acquisition has given the group a significant presence in a number of European countries on which we have begun to build. Following the acquisition of Wisper, an office has been opened in Milan to serve existing customers.

As a result of the advancement of our UK and European expansion plans, to take advantage of the dramatic growth in the markets for Internet related services, a loss was incurred in the year. The directors therefore consider the financial position of the group to be satisfactory.

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 the group 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 group 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 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 the group 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.

ISSUE OF SHARE CAPITAL

During the year, the company issued 4,050,000 ordinary shares of £1 each to provide investment and working capital.

POST BALANCE SHEET EVENT

Subsequent to the year end, the company issued 1,250,000 ordinary shares of £1 each to provide investment and working capital.

DIRECTORS AND INTERESTS IN SHARES

The directors who served during the year were as follows:

Sir R T S Macpherson (Chairman)
R Almeida
T W Challenor
S J Coles FCA
W P Collatos
N K O McGhee
T M Tehranian

INTERNET NETWORK SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS AND INTERESTS IN SHARES (CONTINUED)

In addition, R E Denoon-Duncan was appointed as a director on 19 November 1997 and subsequently resigned on 15 September 1998.

No director of the company had an 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

Registered Office:

**Clifford's Inn
Fetter Lane
London
EC4A 1AS**

AUDITORS' REPORT TO THE MEMBERS OF
INTERNET NETWORK SERVICES LIMITED

We have audited the accounts set out on pages 5 to 22.

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 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 information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 30 September 1998 and of the loss of the group 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



1999

INTERNET NETWORK SERVICES LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 1998

	Note	Continuing operations		1998 £	1997 £
		Ongoing 1998 £	Acquisitions 1998 £		
TURNOVER	1b, 2	4,396,607	181,742	4,578,349	2,583,942
Cost of sales		<u>(2,970,779)</u>	<u>(273,277)</u>	<u>(3,244,056)</u>	<u>(1,950,980)</u>
GROSS PROFIT/(LOSS)		1,425,828	(91,535)	1,334,293	632,962
Administrative expenses		<u>(4,378,193)</u>	<u>(133,979)</u>	<u>(4,512,172)</u>	<u>(1,431,014)</u>
OPERATING LOSS	5	<u>(2,952,365)</u>	<u>(225,514)</u>	(3,177,879)	(798,052)
Interest payable and similar charges	3			(144,808)	(20,718)
Interest receivable and similar income	4			<u>65,344</u>	<u>9,459</u>
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION	7			<u>(3,257,343)</u>	<u>(809,311)</u>

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

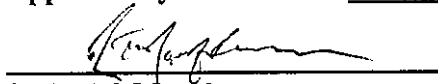
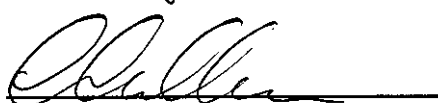
INTERNET NETWORK SERVICES LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 1998

		<u>1998</u>		<u>1997</u>	
	Note	£	£	£	£
FIXED ASSETS					
Intangible assets	8		472,871		-
Tangible assets	9a		8,268,492		563,372
			8,741,363		563,372
CURRENT ASSETS					
Stocks	11	236,758		36,303	
Debtors	12	2,080,730		708,742	
Cash at bank and in hand		1,733,107		972,211	
		4,050,595		1,717,256	
CREDITORS - amounts falling due within one year	13	(3,605,128)		(1,152,721)	
NET CURRENT ASSETS			445,467		564,535
			9,186,830		1,127,907
DEFERRED INCOME	14		(2,450,724)		(791,028)
TOTAL ASSETS LESS CURRENT LIABILITIES			6,736,106		336,879
CREDITORS - amounts falling due after more than one year	15		(5,606,570)		-
			1,129,536		336,879
CAPITAL AND RESERVES					
Called up share capital	18		5,575,000		1,525,000
Profit and loss account	19		(4,445,464)		(1,188,121)
Equity shareholders' funds	17		1,129,536		336,879

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


 Sir R T S Macpherson)
)
) Directors
)

 T W Challenor)



INTERNET NETWORK SERVICES LIMITED

BALANCE SHEET

AS AT 30 SEPTEMBER 1998

	Note	<u>1998</u>		<u>1997</u>	
		£	£	£	£
FIXED ASSETS					
Intangible assets	8		472,871		-
Tangible assets	9b		8,234,569		537,688
Investments	10		<u>104</u>		<u>100</u>
			8,707,544		537,788
CURRENT ASSETS					
Stocks	11	34,513		36,303	
Debtors	12	1,744,929		760,042	
Cash at bank and in hand		<u>1,687,472</u>		<u>933,770</u>	
		3,466,914		1,730,115	
CREDITORS - amounts falling due within one year	13	<u>(3,556,713)</u>		<u>(1,051,058)</u>	
NET CURRENT (LIABILITIES)/ASSETS			<u>(89,799)</u>		<u>679,057</u>
			8,617,745		1,216,845
DEFERRED INCOME	14		<u>(1,487,035)</u>		<u>(654,360)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			7,130,710		562,485
CREDITORS - amounts falling due after more than one year	15		<u>(5,606,570)</u>		<u>-</u>
			<u>1,524,140</u>		<u>562,485</u>
CAPITAL AND RESERVES					
Called up share capital	18		5,575,000		1,525,000
Profit and loss account	19		<u>(4,050,860)</u>		<u>(962,515)</u>
Equity shareholders' funds	17		<u>1,524,140</u>		<u>562,485</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)	

INTERNET NETWORK SERVICES LIMITED
CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 1998

	Note (Page 10)	1998 £	1997 £
Net cash outflow from operating activities	A	(715,475)	(351,758)
Net cash outflow from returns on investments and servicing of finance	B	(79,464)	(11,259)
Net cash outflow from capital expenditure	C	(865,835)	(374,408)
Net cash outflow for acquisitions	D	(908,106)	-
Net cash outflow before use of liquid resources and financing		(2,568,880)	(737,425)
Net cash outflow from management of liquid resources	E	(481,722)	(850,000)
Net cash inflow from financing	F	3,329,776	1,500,000
Increase/(decrease) in cash in the year		<u>279,174</u>	<u>(87,425)</u>
Reconciliation of net cash inflow/(outflow) to movement in net (debt)/funds			
Increase/(decrease) in cash in the year		279,174	(87,425)
Cash outflow from increase in liquid resources		481,722	850,000
Cash outflow from increase in debt financing		720,224	-
Effect of foreign exchange rate changes		<u>139,679</u>	<u>-</u>
Increase in net funds resulting from cash flows in the year		1,620,799	762,575
Inception of finance leases and hire purchase contracts		(7,064,775)	-
Net funds at 1 October		<u>972,211</u>	<u>209,636</u>
Net (debt)/funds at 30 September		<u>(4,471,765)</u>	<u>972,211</u>

INTERNET NETWORK SERVICES LIMITED
CONSOLIDATED CASHFLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 1998

Analysis of changes in net (debt)/funds

	At 1 October 1997 £	Cashflow £	Non cash movement £	Exchange movement £	At 30 September 1998 £
Cash at bank and in hand	122,211	279,174	-	-	401,385
Current asset investments	850,000	481,722	-	-	1,331,722
	972,211	760,896	-	-	1,733,107
Obligations under finance leases and hire purchase contracts	-	720,224	(7,064,775)	139,679	(6,204,872)
	972,211	1,481,120	(7,064,775)	139,679	(4,471,765)

During the year, the group entered into finance lease and hire purchase arrangements in respect of assets with a total capital value at inception of the arrangements of £7,064,775 (1997 : £nil).

INTERNET NETWORK SERVICES LIMITED
NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 1998

A. Reconciliation of operating loss to net cash outflow from operating activities	1998 £	1997 £
Operating loss	(3,177,879)	(798,052)
Depreciation and amortisation	618,929	189,994
Loss on disposal of fixed assets	-	2,574
Exchange gain	(139,679)	-
Increase in stocks	(200,455)	(29,106)
Increase in debtors	(1,073,263)	(181,875)
Increase in creditors	1,823,238	273,775
Increase in deferred income	1,433,634	190,932
Net cash outflow from operating activities	<u>(715,475)</u>	<u>(351,758)</u>
 B. Returns on investments and servicing of finance		
Interest received	65,344	9,459
Interest paid	(30,087)	(20,718)
Interest element of payments under finance leases and hire purchase contracts	(114,721)	-
Net cash outflow from returns on investments and servicing of finance	<u>(79,464)</u>	<u>(11,259)</u>
 C. Capital expenditure		
Purchase of intangible fixed assets	(37,000)	-
Purchase of tangible fixed assets	(828,835)	(381,484)
Receipts on disposal of tangible fixed assets	-	7,076
Net cash outflow from capital expenditure	<u>(865,835)</u>	<u>(374,408)</u>
 D. Acquisitions		
Purchase of business (see note G)	<u>(908,106)</u>	-
 E. Management of liquid resources		
Cash placed on 7 day deposit	<u>(481,722)</u>	<u>(850,000)</u>
 F. Financing		
Issue of ordinary share capital	4,050,000	1,500,000
Capital element of payments under finance leases and hire purchase contracts	(720,224)	-
Net cash inflow from financing	<u>3,329,776</u>	<u>1,500,000</u>

INTERNET NETWORK SERVICES LIMITED
NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 1998

G. Acquisitions

Purchase of business

As disclosed in note 8, the group acquired the business and assets of Wisper Bandwidth Plc.

The fair value of the net assets acquired and the consideration given was as follows:

	1998
	£
Tangible fixed assets	426,739
Investments	4
Debtors	298,725
Creditors	(30,871)
Deferred income	(226,062)
	<u>468,535</u>
Fair value of net assets	468,535
Goodwill on acquisition	<u>439,571</u>
Fair value of consideration	<u>908,106</u>
Satisfied by:	
Cash (including acquisition costs)	<u>908,106</u>
The net cash outflow in respect of the acquisition comprised:	
Cash consideration	<u>908,106</u>

INTERNET NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS

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) Turnover

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

c) Amortisation of intangible fixed assets

Expenditure incurred in respect of acquiring telecoms licences is carried forward and amortised over a period of ten years.

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:

Leasehold improvements - over period of lease (to the first break point)

Fixtures and fittings - 20% on cost

Computer equipment - 33 1/3% on cost

Software - 33 1/3% on cost

Telco infrastructure - 8% on cost

e) Stocks

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

f) Foreign currency

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.

g) Leasing commitments

Fixed assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The corresponding obligations are included in creditors. Related finance charges are written off over the period of the agreements to produce a constant rate of return on the outstanding balance.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

h) Basis of consolidation

The group accounts consolidate the accounts of Internet Network Services Limited and all of its subsidiary undertakings, made up to 30 September 1998. The results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or to the date of disposal.

INTERNET NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

YEAR ENDED 30 SEPTEMBER 1998

1. ACCOUNTING POLICIES (CONTINUED)

h) Basis of consolidation (continued)

In the company's accounts investments in subsidiary undertakings are stated at cost.

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The company's loss for the year ended 30 September 1998 determined in accordance with the Act was £3,088,345 (1997 : £728,393).

i) Goodwill and amortisation

The directors have decided upon the early adoption of Financial Reporting Standard No. 10, "Goodwill and Intangible Assets" (FRS 10), and accordingly goodwill, representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired, is capitalised and then amortised through the profit and loss account over its useful economic life.

Following the transitional arrangements of FRS10, goodwill previously eliminated directly against reserves, as a matter of accounting policy, has not been reinstated. Such goodwill would be reflected in the profit and loss account on the subsequent disposal or termination of the business to which it related.

At 30 September 1998 the cumulative goodwill written off on consolidation was £194,249 (1997 : £194,249).

j) Pension scheme

The amount charged to the profit and loss account in respect of the group's defined contribution pension schemes is the contributions payable in the period.

k) Rent payable

Benefits received and receivable, as an incentive to sign a lease, are charged such that the total cost of the lease is amortised over the period of the lease (to the first open market rent review) on a straight line basis.

2. TURNOVER

	1998	1997
	£	£

Geographical analysis of turnover was as follows:

United Kingdom	4,510,686	2,583,942
Other European countries	61,763	-
United States of America	5,900	-
	<u>4,578,349</u>	<u>2,583,942</u>

INTERNET NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

YEAR ENDED 30 SEPTEMBER 1998

	1998 £	1997 £
3. INTEREST PAYABLE AND SIMILAR CHARGES		
On hire purchase contracts and finance leases	114,721	-
On amounts owed to group undertakings	30,087	20,718
	<u>144,808</u>	<u>20,718</u>
4. INTEREST RECEIVABLE AND SIMILAR INCOME		
Bank deposit interest receivable	<u>65,344</u>	<u>9,459</u>
5. OPERATING LOSS		
Operating loss has been arrived at after charging/(crediting):		
Amortisation of intangible fixed assets	3,700	-
Depreciation of tangible fixed assets	615,229	189,994
Directors' emoluments (note 6)	218,889	64,101
Auditors' remuneration	20,000	14,800
Operating lease rentals	287,432	38,584
Loss on disposal of fixed assets	-	2,574
Exchange gain on foreign currency borrowings	<u>(139,679)</u>	<u>-</u>
6. DIRECTORS AND OTHER EMPLOYEES		
The average number of persons employed by the group during the year was as follows:	Number	Number
Technical	22	5
Administration	12	5
Sales	20	6
	<u>54</u>	<u>16</u>
Staff costs include the following:	£	£
Wages and salaries	1,541,810	216,845
Social security costs	138,787	22,823
Other pension costs	27,215	2,550
	<u>1,707,812</u>	<u>242,218</u>
The total emoluments of the directors were as follows:		
Aggregate emoluments	196,039	61,551
Company pension contributions to defined contribution schemes	15,350	2,550
Compensation for loss of office	7,500	-
	<u>218,889</u>	<u>64,101</u>

INTERNET NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

YEAR ENDED 30 SEPTEMBER 1998

6. DIRECTORS AND OTHER EMPLOYEES (CONTINUED)

Retirement benefits are accruing to two directors (1997 : two) under defined contribution schemes.

Aggregate emoluments include consultancy fees of £nil (1997 : £5,000) paid in respect of services by Sir R T S Macpherson, a non-executive director.

The emoluments of the highest paid director were as follows:	1998	1997
	£	£
Aggregate emoluments	105,729	49,050
Company pension contributions to defined contribution schemes	10,800	1,650
	<u>116,529</u>	<u>50,700</u>

7. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no liability to UK corporation tax for the year (1997 : same). The group has trading losses of approximately £2,700,000 (1997 : £560,000) available to be carried forward and set off against future trading profits.

8. INTANGIBLE FIXED ASSETS

Group and company	Licences £	Goodwill £	Total £
Cost			
Additions	<u>37,000</u>	<u>439,571</u>	<u>476,571</u>
At 30 September 1998	<u>37,000</u>	<u>439,571</u>	<u>476,571</u>
Amortisation			
Charge for year	<u>3,700</u>	<u>-</u>	<u>3,700</u>
At 30 September 1998	<u>3,700</u>	<u>-</u>	<u>3,700</u>
Net book value			
At 30 September 1998	<u>33,300</u>	<u>439,571</u>	<u>472,871</u>

INTERNET NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

YEAR ENDED 30 SEPTEMBER 1998

8. INTANGIBLE FIXED ASSETS (CONTINUED)

Goodwill

On 19 August 1998 the company acquired the business and assets of Wisper Bandwidth Plc. The goodwill on acquisition is being amortised in equal annual instalments over its estimated useful economic life of five years from 1 October 1998.

9. TANGIBLE FIXED ASSETS

a) Group

	Leasehold improvements £	Fixtures and fittings £	Computer equipment and software £	Telco infrastructure £	Total £
Cost					
At 1 October 1997	27,984	22,862	784,675	-	835,521
Additions	101,841	83,031	1,393,215	6,742,262	8,320,349
At 30 September 1998	129,825	105,893	2,177,890	6,742,262	9,155,870
Depreciation					
At 1 October 1997	6,247	6,653	259,249	-	272,149
Charge for year	13,681	11,288	410,466	179,794	615,229
At 30 September 1998	19,928	17,941	669,715	179,794	887,378
Net book value					
At 30 September 1998	109,897	87,952	1,508,175	6,562,468	8,268,492
At 30 September 1997	21,737	16,209	525,426	-	563,372

b) Company

Cost					
At 1 October 1997	27,984	22,862	746,165	-	797,011
Additions	101,841	83,031	1,371,633	6,742,262	8,298,767
At 30 September 1998	129,825	105,893	2,117,798	6,742,262	9,095,778
Depreciation					
At 1 October 1997	6,247	6,653	246,423	-	259,323
Charge for year	13,681	11,288	397,123	179,794	601,886
At 30 September 1998	19,928	17,941	643,546	179,794	861,209
Net book value					
At 30 September 1998	109,897	87,952	1,474,252	6,562,468	8,234,569
At 30 September 1997	21,737	16,209	499,742	-	537,688

INTERNET NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

YEAR ENDED 30 SEPTEMBER 1998

9. TANGIBLE FIXED ASSETS (CONTINUED)

Group and company

Included in the above are assets held under finance leases and hire purchase contracts at 30 September 1998 (1997 : £nil) as follows:

	Net book value £	Depreciation in year £
Computer equipment	305,391	17,122
Telco infrastructure	6,562,468	179,794
	<u>6,867,859</u>	<u>196,916</u>

10. INVESTMENTS

	Shares in subsidiary undertakings	
	1998 £	1997 £
Cost		
At 1 October	100	100
Additions	4	-
At 30 September	<u>104</u>	<u>100</u>

	Percentage of ordinary shares held
Subsidiary undertakings:	
The Education Exchange Limited	100%
Wisper Limited	100%
Wisper Bandwidth Limited	100%

The principal activity of The Education Exchange Limited is the provision of Internet and Intranet services to local authority, educational and other markets. The other subsidiary undertakings, which were acquired during the year, are dormant.

INTERNET NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

YEAR ENDED 30 SEPTEMBER 1998

11. STOCKS	Group		Company	
	1998 £	1997 £	1998 £	1997 £
Goods for resale	<u>236,758</u>	<u>36,303</u>	<u>34,513</u>	<u>36,303</u>
12. DEBTORS				
Trade debtors	1,614,729	497,266	1,317,526	446,666
Amounts owed by group undertakings	100	100	-	121,058
Other debtors	38,908	250	21,179	250
Prepayments and accrued income	<u>426,993</u>	<u>211,126</u>	<u>406,224</u>	<u>192,068</u>
	<u>2,080,730</u>	<u>708,742</u>	<u>1,744,929</u>	<u>760,042</u>
13. CREDITORS - amounts falling due within one year				
Trade creditors	580,474	525,104	560,910	508,165
Amounts owed to group undertakings	473,475	181,107	574,134	143,921
Accruals	1,662,621	315,330	1,560,861	272,245
Other creditors	228,988	51,180	201,238	46,727
Moving costs provision	-	80,000	-	80,000
Obligations under finance leases and hire purchase contracts (see note 16)	<u>659,570</u>	<u>-</u>	<u>659,570</u>	<u>-</u>
	<u>3,605,128</u>	<u>1,152,721</u>	<u>3,556,713</u>	<u>1,051,058</u>
14. DEFERRED INCOME				
Deferred subscription income crystallising within one year	<u>2,450,724</u>	<u>791,028</u>	<u>1,487,035</u>	<u>654,360</u>

INTERNET NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

YEAR ENDED 30 SEPTEMBER 1998

15. CREDITORS - amounts falling due after more than one year	Group		Company	
	1998 £	1997 £	1998 £	1997 £
Trade creditors	61,268	-	61,268	-
Obligations under finance leases and hire purchase contracts (see note 16)	5,545,302	-	5,545,302	-
	<u>5,606,570</u>	<u>-</u>	<u>5,606,570</u>	<u>-</u>

16. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS	1998 £	1997 £
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Group and company

The maturity of obligations under finance leases and hire purchase contracts is as follows:

Within one year	984,128	-
Within two to five years	6,049,039	-
	<u>7,033,167</u>	<u>-</u>
<u>Less: Finance charges allocated to future periods</u>	<u>828,295</u>	<u>-</u>
	<u>6,204,872</u>	<u>-</u>
Amounts falling due within one year	659,570	-
Amounts falling due after more than one year	5,545,302	-
	<u>6,204,872</u>	<u>-</u>

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

**17. RECONCILIATION
OF MOVEMENTS IN
SHAREHOLDERS'
FUNDS**

	Group		Company	
	1998 £	1997 £	1998 £	1997 £
At 1 October	336,879	(353,810)	562,485	(209,122)
Loss for the financial year	(3,257,343)	(809,311)	(3,088,345)	(728,393)
Issue of share capital	<u>4,050,000</u>	<u>1,500,000</u>	<u>4,050,000</u>	<u>1,500,000</u>
At 30 September	<u>1,129,536</u>	<u>336,879</u>	<u>1,524,140</u>	<u>562,485</u>

INTERNET NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

YEAR ENDED 30 SEPTEMBER 1998

18. CALLED UP SHARE CAPITAL

	Group and company	
	1998	1997
	£	£
Authorised		
8,000,000 (1997 : 8,000,000) ordinary shares of £1 each	<u>8,000,000</u>	<u>8,000,000</u>
Allotted and fully paid		
5,575,000 (1997 : 1,525,000) ordinary shares of £1 each	<u>5,575,000</u>	<u>1,525,000</u>

During the year, the company issued 4,050,000 (1997 : 1,500,000) ordinary shares of £1 each at par to provide investment and working capital.

19. PROFIT AND LOSS ACCOUNT

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
At 1 October	(1,188,121)	(378,810)	(962,515)	(234,122)
Loss for the financial year	<u>(3,257,343)</u>	<u>(809,311)</u>	<u>(3,088,345)</u>	<u>(728,393)</u>
At 30 September	<u>(4,445,464)</u>	<u>(1,188,121)</u>	<u>(4,050,860)</u>	<u>(962,515)</u>

Group

1998
£

1997
£

The profit and loss account comprises:

Retained losses	(4,251,215)	(993,872)
Goodwill written off on consolidation	<u>(194,249)</u>	<u>(194,249)</u>
	<u>(4,445,464)</u>	<u>(1,188,121)</u>

20. 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.

21. OPERATING LEASE COMMITMENTS

Group and company

	1998			
	Within 1 year	2-5 years	After 5 years	Total
	£	£	£	£
Land and buildings	155,317	-	146,563	301,880
Other	<u>-</u>	<u>136,968</u>	<u>-</u>	<u>136,968</u>
	<u>155,317</u>	<u>136,968</u>	<u>146,563</u>	<u>438,848</u>

INTERNET NETWORK SERVICES LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
YEAR ENDED 30 SEPTEMBER 1998

21. OPERATING LEASE COMMITMENTS (CONTINUED)

	1997			
	Within 1 year £	2-5 years £	After 5 years £	Total £
Land and buildings	-	47,500	22,500	70,000
Other	1,653	35,950	-	37,603
	<u>1,653</u>	<u>83,450</u>	<u>22,500</u>	<u>107,603</u>

22. CAPITAL COMMITMENTS

At the balance sheet date, the group and company had capital commitments authorised and contracted for amounting to £153,000 (1997 : £nil).

23. CONTINGENT LIABILITIES

Company

The company has given a guarantee to Midland Bank PLC. In respect of facilities available to the company and its subsidiary undertaking, The Education Exchange 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).

24. RELATED PARTY TRANSACTIONS

- a) This company's 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 with this entity during the year, nor any outstanding balances at the year end (1997 : same).

INTERNET NETWORK SERVICES LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
YEAR ENDED 30 SEPTEMBER 1998

24. RELATED PARTY TRANSACTIONS (CONTINUED)

The accounts of the company's parent company are not publicly available and listed below are transactions with its UK subsidiary undertakings:

	TRANSACTIONS			
	Licence fee payable £	Royalties payable £	Interest payable £	Year end creditor £
1998				
The Education Exchange Limited	97,500	32,138	5,822	89,768
Internet Network Services Limited	97,500	197,773	24,265	383,607
1997				
The Education Exchange Limited	57,390	21,889	9,707	37,086
Internet Network Services Limited	110,967	107,300	11,011	143,921

- b) The group and company have taken advantage of the exemption from disclosing transactions with undertakings in which 90% or more of the voting rights are controlled by Internet Network Services Limited. These undertakings' results have been included within the consolidated accounts of Internet Network Services Limited.
- 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 group : £nil (1997 : £19,200) and company : £nil (1997 : £7,950). At the year end there was an outstanding creditor balance of group : £382 (1997 : £382) and company : £1,514 (1997 : £1,514).

25. PENSION SCHEME

Towards the end of the financial year, the group introduced defined contribution pension schemes for a number of its employees. The assets of the schemes are held as individual personal pension schemes for each member and the assets of these schemes are independently held with an insurance company. Contributions payable by the group during the year amounted to £27,215 (1997 : £2,550) and there were contributions outstanding of £27,215 (1997 : £2,550) at the year end, which have since been paid.