

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. The whole of the text of this document should be read. You should be aware that an investment in the Company involves a high degree of risk and prospective investors should also carefully read the section entitled "Risk Factors" in Part II of this document before taking any action.

This document, which comprises a prospectus, has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (the "POS Regulations") and the AIM Rules of the London Stock Exchange plc (the "AIM Rules"). A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with regulation 4(2) of the POS Regulations.

The Directors of PlusNet plc, whose names appear on page 8 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made for the Ordinary Shares of PlusNet plc, including those Ordinary Shares to be issued pursuant to the Placing, to be admitted to trading on AIM, a market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority (the "Official List"). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. Further, neither the UKLA nor the London Stock Exchange has examined or approved the contents of this document. It is expected that Admission will become effective and that trading in the Ordinary Shares will commence on AIM on 14 July 2004. No application has been made, or is contemplated, for the Ordinary Shares to be listed on any other recognised investment exchange.

The Placing is conditional, *inter alia*, on Admission taking place on or before 14 July 2004 (or such later date as the Company and Robert W. Baird Limited may agree, but in any event not later than 31 July 2004). The Placing Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission.

**plus**  
The smarter way to Internet

**PlusNet plc**

(Incorporated under the Companies Act 1985 and registered in England and Wales – number 3279013)



**Placing by  
Robert W. Baird Limited  
of 13,910,219 Ordinary Shares at 90p per share and  
Admission to trading on AIM**

This document does not constitute an offer to sell, or the solicitation of an offer to buy, the Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution in the United States, Canada, Australia, Japan or the Republic of Ireland. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under the securities legislation of any state of the United States of America. The relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada, no document in relation to the Placing has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission, and no registration statement has been, or will be, filed with the Japanese Ministry of Finance in relation to the Placing or the Ordinary Shares. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States, Canada, Australia, Japan or the Republic of Ireland or offered or sold to a person within the United States or a resident of Canada, Australia, Japan or the Republic of Ireland.

Robert W. Baird Limited ("Baird"), which is regulated by the Financial Services Authority, is acting as the Company's nominated adviser and broker in connection with the proposed admission of the Company's Ordinary Shares to trading on AIM. Baird's responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. Baird is acting exclusively for the Company and Insight Enterprises Inc. in relation to the Placing. Baird will not be offering advice and will not be responsible for providing the protections afforded to customers of Baird to recipients of this document in respect of the Placing or any acquisition of shares in the Company. Baird has not authorised the contents of any part of this document for the purposes of Regulation 13(1)(g) of the POS Regulations and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by Baird for the accuracy of any information or opinions contained in this document or for the omission of any material information from the document for which the Company and the Directors are solely responsible.

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## Definitions

The following definitions apply throughout this document, unless the context otherwise requires:

“2000 LTIP”	the PlusNet Long Term Incentive Plan adopted in 2000 under which options have been granted over Ordinary Shares
“2000 LTIP Sale Shares”	125,000 of the Sale Shares to be sold in the Placing pursuant to the terms of the Selling Shareholder Agreement by an individual associated with Insight following the exercise of options under the 2000 LTIP
“2004 EMI Scheme”	the PlusNet enterprise management incentive share option scheme adopted conditional on Admission by the Company on 7 July 2004
“2004 PR Scheme”	the PlusNet performance related option scheme adopted conditional on Admission by the Company on 7 July 2004
“Act”	the Companies Act 1985, as amended
“Admission”	the admission of the issued and to be issued ordinary share capital of the Company to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	a market of the London Stock Exchange
“AIM Rules”	the rules of the London Stock Exchange and those other of its rules which govern the admission to trading on, and the operation of companies on AIM
“Articles”	the articles of association of the Company
“Baird”	Robert W. Baird Limited
“Board” or “Directors”	the directors of the Company whose names are set out on page 8 of this document
“Choice Peripherals”	Choice Peripherals Limited
“City Code”	The City Code on Takeovers and Mergers
“Combined Code”	the principles of good governance and code of best practice prepared by the Committee on Corporate Governance, chaired by Sir Ronald Hampel, published in June 1998 and appended to, but not forming part of, the Listing Rules
“Company” or “PlusNet”	PlusNet plc (formerly known as PlusNet Technologies Limited prior to its re-registration as a public limited company and change of name)
“Connected Person”	as defined in Section 346 of the Act
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the Operator (as defined in the CREST Regulations) in accordance with which securities may be held in uncertificated form
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
“Employee Offer”	the offer by the Company to the employees of PlusNet of up to 49,767 New Ordinary Shares at the Placing Price as part of the Placing
“EU”	European Union
“Executive Directors”	the executive directors of the Company, whose names are set out on page 8 of this document
“Group”	PlusNet and its subsidiary
“Insight”	Insight Enterprises Inc. and its subsidiaries other than PlusNet and its subsidiary

"Insight Connected Parties"	Eric Crown, Timothy Crown, Robertson Jones, Stanley Laybourne and Larry Gunning
"Insight GB"	Insight Direct (GB) Limited, a subsidiary of Insight
"Insight Incentive Scheme"	the incentive scheme between Insight GB, the Company, the Executive Directors and the Senior Managers whereby part of the proceeds from the sale of Insight Sale Shares by Insight GB will be gifted to the Executive Directors and Senior Managers, further details of which are set out in paragraph 5(k) of Part VI of this document
"Insight Sale Shares"	11,111,111 Ordinary Shares to be sold by Insight GB on Admission pursuant to the terms of the Placing Agreement
"Insight UK"	Insight Direct (UK) Limited
"Listing Rules"	the rules of the UK Listing Authority made under section 74 of the Financial Services and Markets Act 2000, as amended from time to time
"London Stock Exchange"	London Stock Exchange plc
"Management Sale Shares"	224,006 Ordinary Shares to be sold by certain of the Executive Directors and the Senior Managers pursuant to the terms of the Selling Shareholder Agreement
"New Ordinary Shares"	the 2,450,102 new Ordinary Shares to be issued by the Company pursuant to the Placing
"Non-executive Directors"	the non-executive directors of the Company, whose names are set out on page 8 of this document
"Official List"	the official list of the UK Listing Authority
"Ordinary Shares"	ordinary shares of 0.2p each in the capital of the Company
"Placing"	the placing, by Baird, of the Placing Shares on the terms and conditions set out in the Placing Agreement and Selling Shareholder Agreement
"Placing Agreement"	the conditional agreement dated 8 July 2004 between, <i>inter alia</i> , Baird, the Company, the Directors, Insight GB and Insight in relation to the placing of the New Ordinary Shares and the Insight Sale Shares, further details of which are set out in paragraph 7(b) of Part VI of this document
"Placing Price"	90p per Placing Share
"Placing Shares"	the New Ordinary Shares and the Sale Shares
"POS Regulations"	the Public Offers of Securities Regulations 1995, as amended
"Sale Shares"	the 11,460,117 Ordinary Shares to be sold by the Selling Shareholders pursuant to the Selling Shareholder Agreement and the Placing Agreement being the Insight Sale Shares, the Management Sale Shares and the 2000 LTIP Sale Shares
"Selling Shareholder Agreement"	the conditional agreement dated 8 July 2004 between the Company, Baird and the Selling Shareholders, save for Insight GB, in relation to the placing of Management Sale Shares and the 2000 LTIP Sale Shares
"Selling Shareholders"	certain holders of Ordinary Shares, who have agreed to sell Ordinary Shares under the terms of the Selling Shareholder Agreement and Insight GB, all of them and each of them as the context requires

“Senior Managers”	Dean Sadler, Alistair Wyse and Marco Potesta
“Shareholders”	holders of Ordinary Shares
“Share Option Schemes”	the 2000 LTIP, the 2004 EMI Scheme and the 2004 PR Scheme
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America, its territories and possessors, any state of the United States of America and the district of Columbia and any other area subject to its jurisdiction

## Glossary

"ADSL"	Asymmetric Digital Subscriber Line
"Bandwidth"	Capacity of data concurrently transmitted permissible on a network circuit
"Broadband"	Internet connectivity speeds of more than 128 kilo bits per second
"BT Retail"	The division of BT that aggregates internet wholesale services and interfaces with the End user
"BT Wholesale"	The division of BT that owns the telecommunications network in the UK and provides access to the internet infrastructure on a wholesale basis
"Carrier class"	Infrastructure that has the inherent scalability, performance, resilience and inherent redundancy demanded of major Telecoms carriers
"Churn Rate"	A measurement of the number of customers who leave a paid service, usually expressed as a percentage of total customers
"Connectivity"	Connection to the internet
"CPE"	Customer Premises Equipment, the equipment a customer needs to take advantage of Connectivity, for instance a modem
"Dial-up"	A means of connecting to the internet via analogue or PSTN telephone lines.
"Domain name"	Exclusive name of a computer and file server. A domain that identifies one or more Internet addresses and is used in URLs to identify particular web pages e.g. www.plus.net
"End-users"	Customers who are using the service but who may be billed by an intermediary company
"Internet Protocol" or "IP"	A standardised method of transporting information across the internet in packets of data
"ISP"	Internet service provider
"Metered"	A service that is measured by time or quantity and has a charge associated per unit measured
"Narrowband"	Internet connectivity speeds of up to 128 kilo bits per second
"Ofcom"	The regulator for the UK communications industries, with responsibilities across television, radio and wireless communication services
"Partners"	All customers to whom PlusNet provides services and/or products beyond those provided on a retail basis to residential and business customers
"PAYG"	A pay-as-you-go service that holds no contractual commitment but generates a per unit used charge
"PSTN"	Public Switched Telephone Network, a standard telephone service that most households use
"Remote Internet"	Also known as "Teleworker" the platform PlusNet has supplied for and operates on BT's behalf to address and administer BT's corporate customers teleworking requirements

“Reseller”	A company that resells PlusNet’s products and services
“Restricted”	The term applied to capped services that are limited by bandwidth or time
“SME”	Small and medium sized enterprise
“Spam”	Unsolicited or “junk” e-mail
“Telecoms carriers”	The telecommunication companies which provide the fixed line to allow data to be transmitted over the internet
“Unmetered”	A subscription based service that is not charged per unit used
“URL”	Uniform Resource Locator, the global address of documents and other resources on the World Wide Web
“vISP”	Virtual Internet Service Provider. A white label ISP service branded by any company and physically provided by another
“Voice Over IP” or “VOIP”	Voice telephony delivered over Internet Protocol
“Web Hosting”	Hosting a website so it can be viewed on the Internet
“Workplace”	PlusNet’s in-house developed operational system
“xDSL” or “DSL”	A generic term to describe the family of digital subscriber line services, including ADSL, which enable simultaneous two-way transmission of voice and high speed data over ordinary copper telephone lines

## Directors, Secretary and Advisers

### Directors and secretary

Kevin Donald Adams (*Non-Executive Chairman*)  
Lee Andrew Strafford (*Chief Executive Officer*)  
Ashok Chiman Makanji (*Finance Director and Company Secretary*)  
Neil Thomas Comer (*Commercial Director*)  
Patrick Robert Moya (*Non-executive Director*)  
Michael Sherwin (*Non-executive Director*)

all of the Company's registered office at:  
Technology Building  
Terry Street  
Sheffield  
S9 2BU

### Advisers

**Nominated Adviser, Broker, Financial Adviser  
and Underwriter**  
Robert W. Baird Limited  
Mint House  
77 Mansell Street  
London E1 8AF

**Solicitors to the Placing**  
Ashurst  
Broadwalk House  
5 Appold Street  
London EC2A 2HA

**Principal bankers**  
HSBC  
17 Church Street  
Sheffield  
S1 1HH

**Auditors and Reporting Accountants**  
KPMG LLP  
1 The Embankment  
Neville Street  
Leeds LS1 4DW

**Solicitors to the Company**  
Eversheds LLP  
Senator House  
85 Queen Victoria Street  
London EC4V 4JL

**Registrars**  
Lloyds TSB Registrars  
Princess House  
1 Suffolk Lane  
London EC4R 0AN



### **Placing statistics**

Placing Price	90p
Number of Ordinary Shares in issue immediately following the Placing	27,900,102
Market capitalisation at the Placing Price	£25.1 million
Number of Ordinary Shares being placed on behalf of:	
– the Company	2,450,102
– the Selling Shareholders	11,460,117
Percentage of the Company's enlarged issued ordinary share capital being placed	49.9 per cent.
Value of the Placing at the Placing Price	£12.5 million
Estimated proceeds of the Placing to be received by the Company, net of expenses	£0.4 million

### **Expected timetable of events**

Admission and dealing in the Ordinary Shares on AIM to commence	14 July 2004
CREST stock accounts credited	14 July 2004
Dispatch of definitive share certificates (if appropriate)	by 21 July 2004

## Key information

The following summary information is derived from, and should be read in conjunction with, the full text of this document. Prospective investors should read the whole of this document, and not rely solely on the key information set out below.

### PlusNet's business

PlusNet is a leading internet service provider ("ISP") principally offering internet Connectivity together with related products and services to UK customers. PlusNet has a low cost operating model, based on a flexible and scalable self-developed operating system, which allows PlusNet to offer high quality products and services that are competitively priced.

As at 31 May 2004, the Company had approximately 180,000 customers, 64,000 of which were Broadband customers.

### Key strengths

The following are considered by the Directors to be the key strengths of PlusNet:

- The Company has a low cost operating model allowing it to offer quality products and services at competitive prices
- PlusNet does not rely on heavy marketing spend or a sales force to attract customers, as referrals currently represent PlusNet's most significant source of new business
- The Company has developed WorkPlace, its in-house operating system, which offers key advantages to PlusNet, including:
  - o *low operating cost structure and scalability* as most of the business functions are automated and customers can adopt a self-service approach;
  - o *flexibility in product and service offering* as PlusNet can develop and launch new products and services at short notice and customers are able to customise their own offering;
  - o *ability to offer products and services under different brands*, PlusNet's brands or the brand of its Partners; and
  - o *transparency of information* across PlusNet's business functions, which extends to the customer, and efficient business reporting
- PlusNet's network platform has been built using Carrier class hardware which can be expanded without significant investment and which can accommodate any national network reseller
- PlusNet is highly profitable, experiencing strong growth and is well positioned to exploit the opportunities associated with the Broadband market

### Company strategy

The Directors intend to continue to grow PlusNet by taking advantage of the opportunities associated with the Broadband market and making selective acquisitions.

### Growing Broadband market

- *Increase in number of Broadband customers.* The number of Broadband customers in the UK is expected to increase over the coming years driven by anticipated reductions in Broadband prices following reduced internet wholesale costs, increased internet penetration and existing Narrowband users upgrading to Broadband. The Directors believe that PlusNet is well positioned to increase its number of Broadband customers, through both the addition of new customers and its existing Narrowband customers upgrading to Broadband.
- *Introduction of new products and services.* The Directors believe that the demand for additional internet software applications, and new products and services, will increase significantly in the residential and business markets. It is the Directors' intention to add new products and services through internal development or by acting as an aggregator.

- *Leverage technology platform through Partners.* The Directors believe that PlusNet can derive additional revenues from its Workplace technology platform. The Directors intend to capitalise on PlusNet's existing relationship with BT, by providing further internet enabled solutions to BT's customers and by creating new partnerships.
- *Use of Resellers.* As PlusNet can supply its products and services under different brands, the Directors intend to use Resellers who would distribute PlusNet's products and services under their own brand, therefore providing further distribution channels for the Company's products and services.

#### *Acquisitions*

The Directors believe that the market in which PlusNet operates will further consolidate and the Company intends to acquire suitable ISPs. The Directors believe that PlusNet is able to significantly reduce the cost base of acquired businesses by transferring their customers to Workplace and that this transfer can be done within a short time frame. The Directors believe that the combination of an increased customer base and PlusNet's low cost model will enable PlusNet to derive substantial benefits from acquired businesses.

#### **Current trading and prospects**

Since 31 December 2003, PlusNet has made progress in moving its business model forward and has seen the number of its Broadband customers increase significantly from 45,364 at 31 December 2003 to approximately 64,000 as at 31 May 2004.

The Directors estimate that PlusNet's turnover will be not less than £12.7 million (2003: £7.7 million) and operating profit will be not less than £1.1 million (2003: £0.9 million) for the 6 month period ending 30 June 2004.

Since 30 June 2004, PlusNet's trading has been in line with the Director's expectations. As a consequence, the Directors are confident in the prospects of PlusNet and that the results for the year ending 31 December 2004 will further demonstrate PlusNet's progress.

#### **Reasons for Admission and the Placing**

It is intended that the proceeds available to the Company from the Placing will be used to cover the expenses associated with the Admission of the Company on AIM and to provide additional flexibility to PlusNet to support its future growth and development. Insight, the major shareholder in PlusNet, is reducing its holding in the Company as it regards PlusNet as a non-core business within the context of Insight.

The Directors believe that a quotation on AIM will raise the status and market profile of PlusNet, promoting further awareness of PlusNet, and that this increased awareness will strengthen PlusNet's ability to promote its products and services. Furthermore, a quotation on AIM will enable PlusNet to issue quoted shares, when appropriate, as currency for making acquisitions. In addition, the Directors also believe that a quotation on AIM will provide liquidity in PlusNet shares, which, in conjunction with PlusNet's option schemes, will help PlusNet to continue to attract and motivate high calibre employees.

#### **Details of the Placing**

The 13,910,219 Placing Shares represent approximately 49.9 per cent. of the Company's enlarged issued ordinary share capital on Admission. The Placing comprises the issue of 2,450,102 New Ordinary Shares to raise approximately £2.2 million for the Company and the sale of 11,460,117 Sale Shares. The Placing has been fully underwritten by Baird.

Of the Sale Shares, 11,111,111 Sale Shares are being sold by Insight (that is, the Insight Sale Shares), representing approximately 46.8 per cent. of their shareholding in the Company prior to such sale, 224,006 Sale Shares are being sold by the Executive Directors and Senior Managers (that is, the Management Sale Shares), and 125,000 Sale Shares are being sold by an individual associated with Insight following the exercise of 2000 LTIP options (that is, the 2000 LTIP Sale Shares). The Management Sale Shares are being sold solely to fund the exercise of options held under the 2000 LTIP (together with associated taxes and expenses).

Up to 193,098 of the New Ordinary Shares are being made available for subscription at the Placing Price on a priority basis to employees of PlusNet pursuant to the Employee Offer and contacts associated with the Directors. The Executive Directors and Senior Managers have agreed to subscribe 297,511 New Ordinary Shares under the terms of the Insight Incentive Scheme.

The Executive Directors and Senior Managers have each agreed, subject to limited exceptions, that they will not dispose of any Ordinary Shares until the announcement of PlusNet's interim results for the 6 month period ending 30 June 2006. Insight GB has agreed, subject to limited exceptions, that it will not dispose of any Ordinary Shares until the announcement of PlusNet's interim results for the 6 month period ending 30 June 2005.

## **PART I**

### **Information on PlusNet**

#### **1. Introduction**

PlusNet is a leading internet service provider ("ISP") principally offering internet Connectivity together with related products and services to UK customers. PlusNet has a low cost operating model, based on a flexible and scalable self-developed operating system, which allows PlusNet to offer high quality products and services that are competitively priced. PlusNet is experiencing strong growth and is highly profitable. As at 31 May 2004, the Company had approximately 180,000 customers of which Broadband customers have represented the most rapidly growing segment for the last three years. As at 31 May 2004, PlusNet had approximately 64,000 Broadband customers, a 61 per cent. increase in Broadband customers since May 2003.

The Directors believe that PlusNet is well placed to build on its position as a leading provider of internet Connectivity in the UK and to take advantage of the opportunities associated with the growing Broadband market. The Directors believe that PlusNet's operating model is a key advantage and will allow PlusNet to continue to grow profitably. The Directors intend to continue to increase PlusNet's customer base by offering market leading and innovative products, both directly and through Resellers and Partners. In addition to continuing the strong organic growth achieved to date, the Directors believe that PlusNet can further enhance its prospects by acting as a consolidator within its industry by acquiring suitable ISPs.

The PlusNet management team has extensive experience in the ISP industry and has been responsible for the strong organic growth in both the customer base and profitability, which PlusNet has experienced in recent years.

#### **2. History and development of PlusNet**

PlusNet is an established and experienced provider of internet services, having been in operation since 1996. Headquartered in Sheffield, PlusNet was created as an off-shoot of a UK computer Reseller, Choice Peripherals, to capitalise on the then growing demand for internet Dial-up access by residential and business customers in the UK.

In early 1997, Lee Strafford, PlusNet's current Chief Executive, formally joined the Company as Commercial and Sales Director in order to develop PlusNet independently from Choice Peripherals. PlusNet moved to dedicated premises the same year. In 1998, Insight, a NASDAQ-quoted reseller of information technology products and services to businesses in the US, acquired Choice Peripherals and 95 per cent. of the share capital of PlusNet. Subsequently, PlusNet has continued to operate as an independent business under the supervision of Insight.

Until the introduction of Broadband in the UK during 2000, PlusNet successfully built a customer base for a range of Narrowband products, including PAYG and Unmetered offerings. Since 2000, PlusNet has taken advantage of xDSL technology to provide innovative residential and business Broadband products.

The management team has successfully positioned PlusNet to focus on the provision of internet Connectivity services and products at competitive prices, which appeal to PlusNet's typical customers, the more experienced internet users. PlusNet's customers have proved to be an excellent source of new customer referrals, to the extent that referrals currently represent PlusNet's most significant source of new business.

In 2003, PlusNet won a number of awards from various bodies and publications for its products and services, including: "Best ISP on the Planet 2003" by Internet Magazine; "Gold Award 2003" by ISP Review; Future Publishing's "Internet Award for Broadband 2003"; and PC Pro's "Best Broadband ISP 2003".

The Company was re-registered as a public limited company on 7 July 2004.

### 3. The Market

#### *The Broadband Market*

According to Ofcom<sup>1</sup>, in February 2004, 53 per cent. of UK adults had internet access at home. Most internet users still connect to the internet over a telephone line, typically using a modem speed of 56 kilobits per second, a type of Narrowband which requires waiting while a dial-up connection is successfully made. In recent years, new products have been introduced, collectively known as Broadband, which provide internet access at a faster speed and which do not require a waiting time for a dial-up connection to be successfully made. The most popular Broadband technologies are currently xDSL, where internet services are principally delivered from BT's network, and cable Broadband, where internet services are delivered by cable operators, such as NTL and Telewest. In February 2004, it is estimated that 25 per cent. of homes with internet access had Broadband connections.

Due to the advantages of Broadband over Narrowband, including the data transfer speed and 'always-on' connection, the number of Broadband connections has increased significantly over recent years. Ofcom's research states that at the end of April 2004 there were almost 4 million Broadband connections in the UK, of which 2.45 million were xDSL and 1.55 million cable connections. Over the five month period from the end of November 2003, the number of xDSL customers grew by 46 per cent, compared with a 15 per cent. increase in cable modem subscribers. According to Ofcom, there were 40,000 new Broadband connections per week at the end of April 2004.

Additionally, Ofcom's research states that Broadband was available to 84 per cent. of UK homes and businesses. BT has recently stated that 99.6 per cent. xDSL Broadband coverage of every UK community is achievable by the end of the first quarter of 2006.

The increased reliance on the internet and the increased speed at which data can be transferred over Broadband connections has also led to the increase of additional services and products alongside internet Connectivity, particularly in such areas as web based software applications, security, VOIP, and content.

#### *Market regulation*

One of the roles of Ofcom is to regulate BT which owns a large part of the telephone infrastructure in the UK and specifically the 'local loop'. The local loop is the copper wire in the ground running between local exchanges and residential and commercial premises. Ofcom has recognised that BT has a quasi-monopoly over the wholesale Broadband Connectivity market. In order to ensure that the UK has greater competition in the supply of wholesale Broadband, BT Wholesale's prices are regulated by Ofcom.

#### *Competition*

The UK ISP market is served by a few large ISPs, primarily BT, Wanadoo (formerly Freeserve), AOL, Tiscali, NTL, Telewest and Virgin and a large number of smaller operators. Large ISPs typically have a mass market approach, relying on high press and media coverage to acquire customers, and offer a generic product set and services. Smaller ISPs typically focus on specific market niches and offer more flexible products and services.

A number of ISPs such as BT, Tiscali, NTL, Telewest and Easynet also act as network wholesalers, as they own part of the network infrastructure.

Due to the fragmented nature of the industry, the Directors believe that further consolidation will occur, especially among the smaller operators.

<sup>1</sup> Source: The Ofcom internet and broadband update May 2004

#### 4. Products and services

PlusNet's product portfolio includes Narrowband and Broadband offerings, with multiple speed, time and capacity variants. These are also differentiated for residential and business customers. In addition, PlusNet offers managed Broadband services to Partners.

##### *Connectivity*

###### *– Narrowband:*

PlusNet currently offers Metered PAYG and Unmetered products. PAYG products generate revenue via a share of the call charge, which is received on a monthly basis from the relevant Telecoms carrier. Revenues from Unmetered subscription products are received directly from the End-user in advance, on a monthly, quarterly or annual basis.

###### *– Broadband:*

PlusNet offers a number of Broadband products, which differ in terms of the speed of data download and upload, to address the needs of its residential and business customers. PlusNet's Broadband products have, historically, principally been Unmetered products for which the End-user pays a monthly, quarterly or annual subscription fee, in advance. PlusNet has recently introduced Restricted Broadband products, typically on an initial fixed subscription basis. The initial fixed charge for these products increases by increments as certain levels of data transfer are exceeded, up to a level of data transfer above which no further additional charges apply.

##### *Applications and other services*

Software applications are sold individually or bundled by PlusNet alongside Connectivity products as added value features, and can be mixed and matched. PlusNet offers a range of complementary services and applications such as domain and hosting, web hosting and security, productivity and communications applications.

##### *Services to Partners*

Due to the scalability and flexibility of PlusNet's technology platform ('Workplace') and its ability to operate multiple brands, PlusNet has developed a partnership with BT. Under this partnership, PlusNet provides an outsourced ISP service to enable BT to deliver specific services to its corporate customers. PlusNet's main service to BT is Remote Internet, which is currently used by a number of blue-chip corporate customers, to enable them to deliver quality internet Connectivity services to their teleworkers. PlusNet also provides vISP services to BT, which are offered by BT to its corporate customers.

#### 5. Strategy and future growth opportunities

##### *Strategy*

PlusNet aims to offer a broad choice of internet Connectivity and associated products and services of the highest quality at competitive prices, to UK residential and business customers. PlusNet relies on its low cost and efficient operating model to maximise profitability.

The key elements of the Company's operating model are as follows:

##### *Customer acquisition based on referrals*

PlusNet principally relies on the quality of its products and services and competitive pricing to attract the more experienced internet users, PlusNet's typical customers. In the past 3 years, PlusNet has significantly increased its customer base due to its reputation for quality and value and through customer referral programmes, which offer financial incentives for referring new customers. In addition, PlusNet uses targeted e-mail marketing campaigns and the profile gained in relevant publications from its industry awards to attract new customers. As a consequence, PlusNet does not need to rely on heavy marketing spend or a sales force.

In addition, the costs associated with acquiring new customers are kept low as they subscribe to PlusNet's products and services exclusively through the Company's websites.

The Directors believe that a high level of customer satisfaction in PlusNet's products and services is further evidenced by the low Churn Rate experienced by PlusNet. In the past 2 years, PlusNet's Broadband Churn Rate has been in the region of 1 per cent. to 2 per cent. which the Directors believe compares favourably with most of the Company's competitors.

#### *Flexible and low cost operating system*

Over the years, the Company has developed Workplace, an in-house operating system, which links the various business functions of PlusNet together. Workplace binds the Company's customer database, customer administration self-service portals, project management systems, problem management system, knowledge management tools, accounting and billing applications and network management tools.

Workplace is designed to maximise the automation of all business functions, to offer a high level of transparency, reporting, flexibility and scalability, and through its functionality a self-service approach to customers. This self-service approach allows customers to interact with PlusNet directly via a personalised web portal, to resolve issues and have access to a full audit trail of their resolution. 24/7 call centre support is available if needed, but experience has shown that the self-service approach minimises the need for human intervention. The Directors believe that this approach not only minimises operating costs, but also maximises customer satisfaction.

Workplace offers a number of key advantages to PlusNet including:

- *Low operating cost structure and scalability:* As most of the business functions are automated and as the customer can adopt a self-service approach, cost per customer is kept low and new customers are added with minimal incremental operating costs.
- *Flexibility in products and services offering:* Due to the functionality of Workplace, PlusNet is able to offer a large range of products and services which can be 'mixed and matched' by the customer. This approach to product construction extends into the Connectivity products, which allow customers to customise their own offering by self-selecting the number of components required within each product such as the number of e-mail addresses and amount of web space. In addition, Workplace allows PlusNet to develop and launch new Connectivity products at short notice.
- *Multi brand and multi market strategies:* Due to its flexibility, Workplace allows PlusNet to offer its products and services under PlusNet's own brands, such as Force 9 and FreeOnline, or the brands of its Partners and to target different customer segments. The Directors believe that this will provide a major advantage to PlusNet when acquiring businesses, as PlusNet could easily transfer an acquired business's customer base to Workplace whilst retaining the brand of the acquired business.
- *Transparency and reporting capability:* Workplace is web based and offers transparency of information across all of PlusNet's business functions and efficient reporting, including the real-time monitoring of a number of key performance indicators. The Directors believe that this improves efficiencies across PlusNet. This transparent reporting extends to customers, who are able to view information on the operation of their service via a personalised web portal. The Directors believe this reduces the number of queries received by customer support and increases customers' satisfaction.

#### *Carrier class and scalable network platform*

PlusNet's network platform has been built using Carrier class hardware equipment from leading hardware providers including Cisco, Juniper, Redback, Foundry, Nortel, Sun and Network Appliance. This hardware equipment, which is deployed in a manner which ensures that there is no single point of failure on the network, is modular in design and, as a consequence, can be expanded without significant investment or re-engineering of PlusNet's network.

PlusNet has not invested heavily in extensive wide area networks as the Company principally purchases national network from BT Wholesale. In addition, the flexibility of PlusNet's network platform means that PlusNet could use any other national network wholesaler.



The Company's network platform offers scalability and flexibility at an advantageous cost per customer. The Directors believe that PlusNet's network platform will enable the Company to serve increasing customer numbers without impacting on the quality of its products and services.

### *Growth opportunities*

The Directors intend to continue to grow PlusNet by taking advantage of the opportunities associated with the Broadband market and making selective acquisitions.

Furthermore, the Directors believe that the Company's operating model is such that it could translate into any established Broadband market, regardless of its location.

### *Growth in the Broadband market*

The Directors intend to further enhance PlusNet's prospects through the following initiatives:

- *Increase in number of Broadband customers*  
The number of Broadband customers is expected to increase over the coming years driven by anticipated reductions in Broadband prices following reduced internet wholesale costs, increased internet penetration and existing Narrowband users upgrading to Broadband. The Directors believe that PlusNet is well positioned to increase its number of Broadband customers, through both the addition of new customers and its existing Narrowband customers upgrading to Broadband.
- *Introduction of new products and services*  
The Directors believe that the demand for additional applications such as security and Spam control, and new products and services, such as VOIP and video on demand, will increase significantly. Such growth is expected in the residential and business markets. It is the Directors' intention to add new products and services through internal development or by acting as an aggregator. PlusNet will also tailor new products to address the needs of different market segments.
- *Leverage technology platform through Partners*  
The Directors believe that PlusNet can derive additional revenues from its Workplace technology platform. The Directors intend to capitalise on PlusNet's existing relationship with BT, by providing further internet enabled solutions to BT's customers and by creating new partnerships.
- *Use of Resellers*  
As PlusNet can supply its products and services under different brands, the Directors intend to use Resellers who would distribute PlusNet's products and services under their own brand, therefore providing further distribution channels for the Company's products and services.

### *Acquisitions*

The Directors believe that the market in which PlusNet operates will further consolidate and the Company intends to acquire suitable ISPs. The Directors believe that PlusNet is able to significantly reduce the cost base of acquired businesses by transferring their customers to Workplace within a short time frame. As Workplace allows the operation of multiple brands, the customers of the acquired businesses will interact with their usual brand, thus maximising customer retention. The Directors believe that the combination of an increased customer base and PlusNet's low cost model will enable PlusNet to derive substantial benefits from acquired businesses.

## 6. Summary financial information

The table below, the contents of which have been extracted without material adjustment from the accountants' report on PlusNet in Part IV of the document, summarises the trading record of PlusNet for the three years ended 31 December 2003. Prospective investors should read the whole of this document and not rely solely upon the information that appears below:

	<i>Financial year ended 31 December</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	6,211	9,883	17,395
Cost of sales	(1,969)	(5,184)	(11,219)
Gross profit	4,242	4,699	6,176
Operating profit before depreciation and amortisation	2,086	2,555	3,548
Depreciation and amortisation	1,226	1,403	1,736
Operating profit	860	1,152	1,812
Profit on ordinary shares after taxation	535	749	1,315
<b>Subscribers</b>			
Narrowband	89,108	100,728	108,132
Broadband	730	14,517	45,364
Total	<u>89,838</u>	<u>115,245</u>	<u>153,496</u>

The Company has experienced revenue compound annual growth of 67 per cent. between 2001 and 2003. PlusNet's revenues, which were initially generated by the sale of Narrowband products, including PAYG Metered products, are now generated principally by the sale of Broadband products. PAYG products generate higher margins compared to Broadband products as PlusNet receives a share of the call charges from the Telecoms carriers. Due to the shift in product mix over the period, and different margins generated by Narrowband and Broadband products, PlusNet's gross margin percentages have decreased between 2001 and 2003 although PlusNet's gross profits have substantially increased from £4.2 million in 2001 to £6.2 million in 2003. Over the same period, PlusNet's operating profit has increased from £0.86 million to £1.8 million.

A pro forma net assets statement of PlusNet following Admission is set out in Part V of this document.

## 7. Current trading and prospects

Since 31 December 2003, PlusNet has made progress in moving its business model forward and has seen the number of its Broadband customers increase significantly from 45,364 at 31 December 2003 to approximately 64,000 as at 31 May 2004.

The Directors believe that PlusNet is well positioned to take advantage of the growth in the Broadband market as demonstrated by the growing number of PlusNet's Broadband customers as well as PlusNet's trading for the 6 month period to 30 June 2004. The Directors estimate that the turnover, gross profit, operating profit before depreciation and amortisation and operating profit for PlusNet for the 6 month period ending 30 June 2004, will be not less than as follows.

	<i>6 month period to 30 June 2003 £ millions</i>	<i>6 month period to 30 June 2004 £ millions</i>
Turnover	7.7	12.7
Gross Profit	2.9	3.8
Operating profit before depreciation and amortisation	1.7	2.0
Depreciation and amortisation	(0.8)	(0.9)
Operating Profit	0.9	1.1

The bases and assumptions underlying the above estimates are set out in Part III of this document from which the information in the above table has been extracted.

Since 30 June 2004, PlusNet's trading has been in line with the Director's expectations. As a consequence, the Directors are confident in the prospects of PlusNet and that the results for the year ending 31 December 2004 will further demonstrate PlusNet's progress.

## **8. Management and employees**

All of the Executive Directors and the Senior Managers will have an equity interest in the Company. The Directors intend to encourage equity participation in PlusNet by its senior management in order to develop a culture which, the Directors believe, will allow the Company to incentivise its senior management as well as to attract and retain talented individuals.

### ***Board of Directors***

The Board will initially comprise three Executive Directors and three Non-executive Directors.

#### ***Kevin Adams (aged 49), Non-Executive Chairman***

Kevin is currently chief executive officer of Intec Telecom Systems PLC. Prior to joining Intec Telecom in 1997, Kevin worked at Logica plc where he was telecommunications software and services international business unit director. Between 1994 and 1996, Kevin worked as a vice president for Blyth, an American-owned products and services company. Between 1989 and 1994 Kevin worked for Admiral Software Limited where he was Managing Director between 1991 and 1994. Prior to 1989, Kevin held a number of positions with Hoskyns plc, a supplier of computer services in the UK, and he worked for the Michelin Tyre Company Plc.

#### ***Lee Strafford (aged 32), Chief Executive Officer***

Lee joined PlusNet in 1997, as Commercial and Sales Director, and became Managing Director in 1999. Prior to joining PlusNet, Lee ran his own telecoms consultancy and contracting business for 5 years and before that, he worked for a private telecoms contractor. Lee has over 15 years experience in the telecoms industry.

#### ***Ashok Makanji (aged 39), Finance Director***

Ashok has been company secretary and worked closely with PlusNet, since 1999, whilst employed by Insight UK. Since April 2004, he has been working full time for PlusNet. From 1999 to 2004, Ashok worked for Insight UK, as the VP of finance and company secretary. Between 1993 and 1999, Ashok worked for Shell Gas Limited in a number of different positions including financial controller, project manager and assistant to the general manager and the financial director. Ashok worked for Citigas Limited between July 1992 and June 1993 and qualified as a chartered accountant with Fraser & Russell Chartered Accountants between February 1987 and July 1992. Ashok has a degree in accounting from City of London Polytechnic and is a qualified chartered accountant.

#### ***Neil Comer (aged 44), Commercial Director***

Neil joined PlusNet in May 2004 having previously worked for Bentley Jennison, an accounting, audit and business support services firm, as a corporate finance director since 2001. Neil has advised PlusNet on strategic and corporate finance matters for three years before joining the Company. Neil worked for KPMG from 1981 to 2001. Between 1993 and 2001, he worked as a corporate finance advisor for KPMG in Reading, London and subsequently Leeds. Prior to 1993, Neil worked in the Reading, London and Atlanta offices of KPMG audit. Neil has a degree in Economics and Accounting from the University of Bristol and is a qualified chartered accountant.

#### ***Robert Moya (aged 59), Non-executive Director***

Bob has been a Director of PlusNet since 2003. Bob also serves as executive vice president, chief administrative officer, general counsel and corporate secretary of Insight which he joined in 2002. Prior to joining Insight, Bob practiced law as a partner with three major U.S. law firms. Immediately prior to joining Insight, Bob spent 11 years as a partner in the Phoenix office of the Quarles & Brady

LLP law firm, where he was a member of the National Executive Committee and the Arizona Management Committee and the Co-Chairman of the Corporate and Securities Law Group. He has acted as Chairman of the Securities Section and the Law Practice Management Sections of the State Bar of Arizona and as a Councilman of the Town of Paradise Valley, Arizona. Bob received a Bachelor of Arts degree from Princeton University in 1966 and a Juris Doctor degree from Stanford University Law School in 1969.

*Michael Sherwin (aged 45), Non-executive Director*

Michael is currently finance director of Games Workshop Group PLC. Prior to joining Games Workshop in June 1999, Michael was group financial controller of Courtaulds Textiles plc where he had worked for six years. He was previously with Price Waterhouse for 12 years where he qualified as a chartered accountant in 1984.

**Senior Management**

*Alistair Wyse (aged 32), Service and Technical Director*

Alistair has 10 years experience within the IT industry, with the last 6 of these being spent working for PlusNet. Previously he held various IT positions including network engineer. He has an excellent knowledge of the ISP marketplace, providers and technology employed. His technical experience includes deployment of major Cisco routers and switches, Sun servers and key internet services. Alistair joined PlusNet in December 1996 and is responsible for the strategic direction of the infrastructure engineering and customer support centre of PlusNet.

*Dean Sadler (aged 33), Products and Development Director*

Dean joined PlusNet in February 1999. Prior to joining PlusNet, he studied at the Computing Research Centre, a joint partnership between the University of Sheffield and Sheffield Hallam University, researching "Low Power Asynchronous Designs". Dean has a degree in Engineering and he holds a Masters in Computing specialising in "Hardware / Software Co-Design". He has published and delivered several conference papers on design methodologies. Dean has also lectured at Sheffield Hallam University in database design, electronics and stochastic modelling.

*Marco Potesta (aged 36), Marketing Director*

Marco joined PlusNet in 2003, having worked for 6 years at Insight UK where he worked closely with PlusNet. At Insight UK, Marco held the position of marketing director and subsequently vice president of marketing, systems and product management. Prior to working for Insight UK, Marco ran his own business in the marketing/reprographics arena. Marco holds a degree in French, German, Politics and Economics from Sheffield Hallam University.

**Employees**

As at 31 December 2003, PlusNet had 119 full time employees. An analysis by function of these employees, including the Executive Directors, is set out below:

	<i>Number of employees</i>
Customer support	47
Applications development	42
Network operations	14
Administration	8
Marketing	8
Total	<u>119</u>

**9. Share Option Schemes and pension scheme**

The Directors believe the incentivisation and motivation of PlusNet's employees to be of vital importance and that employees should be given the opportunity to participate and take a financial interest in the Company.

On Admission, options over 1,728,750 Ordinary Shares, representing approximately 6.2 per cent. of the enlarged issued share capital of the Company on Admission, granted under the terms of the 2000 LTIP, will become fully vested. The latest exercise date for these options is 5 May 2006. No further options will be granted under the 2000 LTIP following Admission.

The Directors intend that the issue of options by the Company after flotation, where appropriate, will comply with the guidelines set out by the Association of British Insurers.

Following Admission, PlusNet will operate an enterprise management incentive share option scheme ("2004 EMI Scheme") under the terms of which options may be granted to qualifying employees of the Company subject to individual limits. In addition, a performance related option scheme ("2004 PR Scheme") has been established by the Company under which options may be granted, following Admission, to the Executive Directors and other qualifying full time employees. It is intended that options granted under the 2004 PR Scheme will, in order to vest, be subject to the achievement of earnings per share growth targets.

PlusNet operates a defined contribution pension scheme for eligible employees.

Further details of the 2004 EMI Scheme, the 2004 PR Scheme and of options granted under these schemes are set out in paragraphs 4(a) and 4(b) of Part VI of this document.

## 10. The Placing

The Company, the Directors, Insight GB, Insight and Baird have entered into the Placing Agreement pursuant to which Baird has agreed, subject to the fulfilment of certain conditions, to use its reasonable endeavours to procure subscribers and/or purchasers for (or failing which, itself to subscribe and/or purchase) the New Ordinary Shares and the Insight Sale Shares.

In addition, the Selling Shareholders (save for Insight GB), the Company and Baird have entered into the Selling Shareholder Agreement pursuant to which Baird has agreed, subject to the fulfilment of certain conditions, to use its reasonable endeavours to procure purchasers for (or failing which, itself to purchase) the Management Sale Shares and the 2000 LTIP Sale Shares.

The Placing comprises the issue of 2,450,102 New Ordinary Shares to raise approximately £2.2 million for the Company and the sale of 11,460,117 Sale Shares on behalf of the Selling Shareholders. The 13,910,219 Placing Shares represent approximately 49.9 per cent. of the Company's enlarged issued ordinary share capital on Admission and 44.1 per cent. of the Company's enlarged fully diluted issued share capital on Admission.

Of the Sale Shares, 11,111,111 Sale Shares are being sold by Insight (that is, the Insight Sale Shares), representing approximately 46.8 per cent. of their shareholding in the Company prior to such sale, 224,006 Sale Shares are being sold by the Executive Directors and Senior Managers (that is, the Management Sale Shares), and 125,000 Sale Shares are being sold by an individual associated with Insight following the exercise of 2000 LTIP options (that is, the 2000 LTIP Sale Shares). The Management Sale Shares are being sold solely to fund the exercise of options held under the 2000 LTIP (together with associated taxes and expenses).

Under the terms of the Insight Incentive Scheme, Insight GB has agreed to gift to the Executive Directors and Senior Managers part of the proceeds from the sale of Ordinary Shares by Insight GB in the Placing. The Executive Directors and Senior Managers have agreed that this amount, net of tax and expenses to be incurred by them on Admission, will be used to subscribe 297,511 New Ordinary Shares at the Placing Price.

Up to 193,098 of the New Ordinary Shares are being made available for subscription at the Placing Price on a priority basis to employees of PlusNet pursuant to the Employee Offer and contacts associated with the Directors.

The Placing Shares are being placed at the Placing Price by Baird with institutional and other investors. The Placing has been fully underwritten by Baird.

The Placing Agreement contains provisions entitling Baird to terminate the Placing Agreement in certain circumstances prior to Admission. If this right is exercised, the Placing Agreement and the Selling Shareholder Agreement will lapse and any monies received in respect of the Placing will be returned to placees without interest.

Further details of the terms of the Placing Agreement and Selling Shareholder Agreement are set out in paragraphs 7(b) and 7(d) of Part VI of this document.

### **11. Reasons for Admission and the Placing**

The placing of the New Ordinary Shares will raise approximately £2.2 million for the Company. It is intended that the proceeds available to the Company from the Placing will be used to cover the expenses associated with the Admission of the Company on AIM and to provide additional flexibility to PlusNet to support its future growth and development. Insight is reducing its holding in PlusNet as it regards PlusNet as a non-core business within the context of Insight.

The Directors believe that a quotation on AIM will raise the status and market profile of PlusNet, promoting further awareness of PlusNet, and that this increased awareness will strengthen PlusNet's ability to promote its products and services. Furthermore, a quotation on AIM will enable PlusNet to issue quoted shares, when appropriate, as currency for making acquisitions.

In addition, the Directors also believe that a quotation on AIM will provide liquidity in PlusNet shares, which, in conjunction with PlusNet's 2004 EMI Scheme and 2004 PR Scheme, will help PlusNet to continue to attract and motivate high calibre employees.

### **12. Relationship with Insight**

Following Admission, Insight GB will be beneficially interested in approximately 45.3 per cent. of PlusNet's issued share capital. Insight and the Company have entered into a relationship agreement, conditional upon Admission, to ensure that PlusNet will at all times be able to carry on its business independently of Insight and that all transactions and relationships between them will be at arm's length and on a normal commercial basis. The relationship agreement is described in more detail in paragraph 7(e) of Part VI of this document.

### **13. Lock-in and orderly market arrangements**

The Directors' interests on Admission will amount in aggregate to 5.2 per cent. of the Company's issued ordinary share capital, representing 1,463,493 Ordinary Shares. The Directors and Senior Managers have each agreed, subject to limited exceptions, that they will not, following Admission and without Baird's prior consent, dispose of any Ordinary Shares until the date of publication of the Company's interim results for the six month period ending 30 June 2006. Thereafter, any such sale shall only be made through Baird whilst Baird remains the broker to the Company.

Insight GB's interests on Admission will amount in aggregate to 45.3 per cent. of the Company's issued ordinary share capital, representing 12,638,889 Ordinary Shares. Insight GB has agreed, subject to limited exceptions, that it will not, following Admission without Baird's prior consent dispose of any Ordinary Shares until the announcement of PlusNet's interim results for the 6 month period ending 30 June 2005. Thereafter, any such sale shall only be made through Baird whilst Baird remains the broker to the Company.

In addition, certain individuals associated with Insight who will hold options over 1,375,000 Ordinary Shares at Admission have agreed, subject to limited exceptions, that they will not, following Admission, dispose of any Ordinary Shares resulting from the exercise of such options until the announcement of PlusNet's interim results for the 6 month period ending 30 June 2005. Thereafter, any such sale shall only be made through Baird whilst Baird remains the broker to the Company.

### **14. Quarterly financial information**

Following Admission, Insight GB will be interested in 12,638,889 Ordinary Shares in the Company, representing approximately 45.3 per cent. of the enlarged issued share capital of PlusNet on Admission.

Due to the size of its holding in PlusNet, Insight is required to disclose certain financial information on PlusNet in its financial statements in order to comply with the US generally accepted accounting principles ("US GAAP"). As a consequence, the Directors intend that PlusNet will disclose selected financial information on a quarterly basis at the time of the announcement of Insight's quarterly results. Following Admission, the Directors expect that the first time PlusNet will announce interim results will be 23 July 2004.

As the disclosure of quarterly financial information by PlusNet is linked to the size of Insight GB's shareholding in PlusNet, the Directors will continue to make quarterly disclosures at least until

Insight GB's shareholding's in PlusNet's issued share capital is reduced below 20 per cent. If Insight GB's shareholding in PlusNet is reduced below this level, the Directors intend to review whether PlusNet will continue to provide financial information on a quarterly basis.

In order for Insight to comply with its obligations under US GAAP, the relationship agreement entered between Insight and the Company contains provisions to ensure the disclosure of certain financial information by PlusNet to Insight. Further details on the relationship agreement are set out in paragraph 7(e) of Part VI of this document.

#### **15. Takeover Code**

PlusNet is subject to the provisions of the City Code. Under rule 9 of the City Code, when any person, or persons acting in concert, holds not less than 30 per cent. but no more than 50 per cent., of the voting rights exercisable at general meetings of a company and that person, or any person acting in concert with him, acquires any additional shares which increases his percentage of the voting rights, then such person would normally be obliged to extend a general offer to all shareholders of that company to purchase their shares for cash.

At the date of this document, Insight GB and the Insight Connected Parties are regarded as acting in concert for the purposes of the City Code. Immediately following Admission, Insight GB will hold approximately 45.3 per cent. of the voting rights exercisable at general meetings of the Company. Following the exercise of their 2000 LTIP options, the Insight Connected Parties will hold 1,175,000 Ordinary Shares in the Company, which together with the Ordinary Shares held by Insight GB, will represent a maximum of 49.5 per cent. of the Company's issued share capital following Admission. Accordingly, following Admission, Insight GB and Insight Connected Parties will be restricted in their ability to acquire additional shares carrying voting rights exercisable at general meetings of the Company without being required to make a general offer under rule 9 of the City Code.

Further details of the Insight Connected Parties' interests in 2000 LTIP options are set out in paragraph 5(l) of Part VI of this document.

#### **16. Financial controls and accounting policies**

The finance function of PlusNet is headed by finance director, Ashok Makanji. PlusNet prepares an annual budget which is reviewed at regular intervals. The accounting and financial systems of the Company also produce monthly reports detailing the performance of the Company against the budget. Monthly reports are reviewed in detail and any variances with forecasts are analysed and any appropriate action taken. In addition, a weekly Senior Managers meeting is held at which each department presents its performance for the week against detailed departmental key performance indicators. All of these procedures will continue following Admission.

PlusNet has adopted accounting policies which are in accordance with UK generally accepted accounting practices. As PlusNet has internally developed its operating systems, associated costs are capitalised by PlusNet and amortised over a period of five years. This accounting treatment of software development costs is in accordance with UK GAAP and also with the international accounting standards expected to be introduced in 2005.

#### **17. Dividend policy**

The Directors are committed to building PlusNet's business and accordingly they expect that, initially, any profits will be reinvested in the business. In the longer term, the Directors expect to adopt a dividend policy appropriate to the Company's financial performance.

#### **18. Corporate governance**

It is the Board's intention that, in so far as it is practicable and subject to the following, it will comply with the Combined Code. Where full compliance is not appropriate due to the size of PlusNet, the Directors will follow guidance issued by the Quoted Companies Alliance. PlusNet has three Non-executive Directors who are independent of PlusNet's management and who contribute an objective view in respect of PlusNet's operations.

The Board has established an audit committee, a remuneration committee and a nomination committee, to each of which duties and responsibilities have been formally delegated.

The audit committee, which is chaired by Michael Sherwin and comprised of Michael Sherwin, Kevin Adams and Robert Moya, will review any reports from the management and the auditors regarding the accounts and the internal control systems implemented throughout PlusNet and will consider draft interim and annual accounts. It will also make recommendations to the Board on the appointment of the auditors and the audit fee. The audit committee has unrestricted access to PlusNet's auditors.

The remuneration committee, which is chaired by Kevin Adams and comprised of Kevin Adams, Michael Sherwin and Robert Moya, will be responsible for making recommendations to the Board on remuneration policy for the Company's Executive Directors and senior management and the terms of their service contracts, with the aim of ensuring that their remuneration, including share options and awards under the 2004 EMI Scheme and the 2004 PR Scheme, is based both on their own performance and that of PlusNet generally. The remuneration committee will also administer and establish performance targets for the 2004 PR Scheme and approve further grants or awards under option schemes. In addition, it will advise on the remuneration policy for PlusNet's employees.

The nomination committee, which is chaired by Kevin Adams and comprised of Kevin Adams, Michael Sherwin and Robert Moya, will be responsible for all senior appointments, which are made within PlusNet.

#### **19. Admission**

It is expected that Admission will take place and dealings on the London Stock Exchange will commence on 14 July 2004 and that (where appropriate) definitive share certificates in respect of the Placing Shares will be despatched on or as soon as practicable and in any event by 21 July 2004.

#### **20. CREST**

All the Ordinary Shares will be in registered form and no temporary documents of title will be issued. The Company has applied for the Ordinary Shares to be admitted to CREST. CREST is a paperless settlement system, which allows for the transfer of shares electronically in uncertificated form. The Articles of Association of the Company allow the holding and transfer of Ordinary Shares under the CREST system and it is expected that the Ordinary Shares will be so admitted, and accordingly enabled for settlement in CREST, on the date of Admission. However, CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain shares certificate will be able to do so.



## PART II

### Risk factors

An investment in Ordinary Shares is subject to a number of risks. Accordingly, prospective investors should consider carefully all of the information set out in this document and the risks attached to an investment in PlusNet, including the risks described below, prior to making any investment decision. The information below does not purport to be an exhaustive list or summary of the risks which PlusNet may encounter. Investors and prospective investors should consider *carefully whether an investment in PlusNet is suitable for them in light of the information in this document and the financial resources available to them.*

PlusNet's business, financial condition or results of operations could be materially and adversely affected by any of the risks described below. In such case, the market price of the Ordinary Shares may decline due to any of these risks and investors may lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on PlusNet.

#### Competition

The Directors intend to invest in developing competitive and market leading products and services. However, the technology market may become increasingly competitive in the UK and elsewhere. The development of new technologies could give rise to significant new competitors, which may have a material effect on PlusNet's business.

PlusNet may face significant competition, including from competitors who have much greater capital resources and who may be able to provide alternative products.

#### Technological change

The technology upon which PlusNet's products are based may become obsolete or may not achieve sufficient market acceptance to create demand for them. In order to compete successfully, PlusNet will need to continue to improve its products and services and to develop and market new products and services that keep pace with technological change.

#### Regulatory environment

There may be a change in government regulation or policies, which adversely affects PlusNet's activities. In addition BT, including its wholesale prices, is regulated by Ofcom and there may be changes in the way BT is regulated, as well as new regulations introduced, which may adversely affect the supplies of certain key services by BT to the ISP industry.

#### The need for additional capital in the future

PlusNet's capital requirements depend on numerous factors, including the rate of market acceptance of its products and services, its ability to maintain and expand its customer base and potential acquisitions. It is difficult for the Directors to predict the timing and amount of PlusNet's capital requirements with accuracy. If its capital requirements vary materially from its plans, PlusNet may require further financing in addition to amounts raised in the Placing. Any additional equity financing may be dilutive to Shareholders, and debt financing, if available, may involve restrictions on PlusNet's financing and operating activities. If PlusNet is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

#### Dependence on key executives and personnel

PlusNet's future success is substantially dependent on retaining and incentivising its senior management and certain key employees. PlusNet provides certain key members of its senior management and its employees with a scheme to incentivise them to continue to improve PlusNet's performance and to encourage them to remain with PlusNet.

### **Current operating results as an indication of future results**

PlusNet's operating results may fluctuate significantly in the future due to a variety of factors, many of which are outside of its control. Accordingly, investors should not rely on comparisons with PlusNet's results to date as an indication of future performance. Factors that may affect PlusNet's operating results include increased competition, an increased level of expenses as it continues to expand into new business areas, slower than expected take-up by customers of its services and changes to the statutory and regulatory regime in which it operates. It is possible that, in the future, PlusNet's operating results will fall below the expectations of securities analysts or investors. If this occurs, the trading price of the Company's shares may decline significantly.

### **Management of growth**

The ability of PlusNet to implement its strategy in a rapidly evolving market requires effective planning and management control systems. The Directors anticipate that further expansion will be required to respond to market opportunities and the potential growth in its client base. PlusNet's growth plans may place a significant strain on PlusNet's management, operational, financial and personnel resources. Therefore PlusNet's future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with PlusNet's growth could have a material adverse effect on PlusNet's business, financial condition and results of operations.

### **Partnerships and Resellers**

Part of PlusNet's strategy is to leverage its relationships with Partners and use Resellers. There can be no guarantee that PlusNet will be able to enter into further strategic alliances or partnership arrangements or find suitable Resellers, or that potential and existing Partners will not enter into relationships with competitors. PlusNet's failure to secure Partners and Resellers for its products and services could have an adverse effect on its business, financial condition or results of operations.

### **New Products**

There can be no assurance that the Company will successfully develop or aggregate new products and services, or that if it does the Company will be able to market these products and services and that they will be profitable or that the Company will produce a reasonable return, if any, on any investment.

### **Volatility of share price**

The share price of publicly traded companies can be highly volatile. The price at which the Ordinary Shares will be issued and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to PlusNet and its operations and some which may affect the technology sector, or quoted companies generally. These factors could include large purchases of sales or shares, currency fluctuations, and general economic conditions.

### PART III

#### Estimate of results for the 6 month period ending 30 June 2004

Having made due and careful enquiry, the Directors estimate that, on the bases and assumptions set out below and in the absence of unforeseen circumstances, the turnover, gross profit, operating profit before depreciation and amortisation and operating profit of the Company for the six months ended 30 June 2004 (the "Estimates") will be not less than as follows:

	<i>6 month period to 30 June 2003 £ millions</i>	<i>6 month period to 30 June 2004 £ millions</i>
Turnover	7.7	12.7
Gross Profit	2.9	3.8
Operating profit before depreciation and amortisation	1.7	2.0
Depreciation and amortisation	(0.8)	(0.9)
Operating Profit	0.9	1.1

#### Basis of preparation

The Estimates have been prepared on a basis consistent with the accounting policies normally adopted by the Company. The Estimates have been based on the unaudited management accounts of the Company for the five months ended 31 May 2004 and the Directors' estimates for the month ended 30 June 2004.

In preparing the Estimates, the Directors have made the following principal assumptions, which are outside their control:

- (a) there will be no significant industrial, commercial, economic or political disputes or other interruptions to business adversely affecting the Company, its operations or its customers;
- (b) there will be no material change in the rates of taxation in the United Kingdom;
- (c) there will be no material change in exchange rates; and
- (d) there will be no material change in regulations or legislation in the UK affecting the Company.

#### Confirmation from Nominated Adviser

Robert W. Baird Limited has satisfied itself that the Estimates have been made after due and careful enquiry by the Directors.

## PART IV

### Accountants' reports on the Company and its subsidiaries



1 The Embankment  
Neville Street  
Leeds LS1 4DW  
United Kingdom

Tel +44 (0) 113 231 3000  
Fax +44 (0) 113 231 3200

The Directors  
PlusNet plc  
Technology Building  
Terry Street  
Sheffield  
S9 2BU

The Directors  
Robert W. Baird Limited  
Mint House  
77 Mansell Street  
London  
E1 8AF

8 July 2004

Dear Sirs

**PlusNet plc (the "Company" or "PlusNet") and its subsidiaries (the "Group")**

We report on the financial information set out below. This financial information has been prepared for inclusion in the Admission Document of PlusNet dated 8 July 2004 (the "Admission Document")

#### **Basis of preparation**

The financial information set out in paragraphs 1 to 4 is based on the audited financial statements of PlusNet plc and PlusNet ASP Limited for the three years ended 31 December 2003, prepared on the basis described in note 4.1 after making such adjustments as we consider necessary.

#### **Responsibility**

Such financial statements are the responsibility of the directors of the Company and the directors of PlusNet ASP Limited who approved their issue respectively.

The directors of PlusNet are responsible for the contents of the Admission Document dated 8 July 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The

evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of PlusNet as at the dates stated and of its results and cash flows for the years then ended.

We consent to the inclusion in the Admission Document dated 8 July 2004 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b) (iii) of Schedule 1 to the Public Offers of Securities Regulations 1995, as amended.

# 1. Profit and loss accounts

	Note	Years ended 31 December		
		2001 £000	2002 £000	2003 £000
Turnover	4.2	6,211	9,883	17,395
Cost of sales		(1,969)	(5,184)	(11,219)
Gross profit		4,242	4,699	6,176
Administrative expenses		(3,382)	(3,547)	(4,364)
Operating profit	4.3	860	1,152	1,812
Other interest receivable and similar income	4.5	10	4	20
Interest payable and similar charges	4.6	(113)	(37)	(—)
Profit on ordinary activities before taxation		757	1,119	1,832
Tax on profit on ordinary activities	4.7	(222)	(370)	(517)
Profit on ordinary activities after taxation		535	749	1,315
Earnings per share – basic	4.8	2.14p	3.00p	5.26p
Fully diluted earnings per share	4.8	2.03p	2.84p	4.99p

All activities relate to continuing operations.

## Statements of total recognised gains and losses

There were no other gains and losses throughout the period under review other than those reported above.

## 2. Balance sheets

	Note	As at 31 December		
		2001 £000	2002 £000	2003 £000
<b>Fixed assets</b>				
Intangible assets	4.9	1,035	103	53
Tangible assets	4.10	3,119	4,162	3,992
		<u>4,154</u>	<u>4,265</u>	<u>4,045</u>
<b>Current assets</b>				
Stock		2	53	128
Debtors	4.11	1,133	1,743	1,957
Cash at bank and in hand		399	1,451	2,475
		<u>1,534</u>	<u>3,247</u>	<u>4,560</u>
<b>Creditors: amounts falling due within one year</b>	4.12	<u>(2,667)</u>	<u>(3,763)</u>	<u>(3,364)</u>
<b>Net current assets/(liabilities)</b>		<u>(1,133)</u>	<u>(516)</u>	<u>1,196</u>
<b>Total assets less current liabilities</b>		3,021	3,749	5,241
Deferred income		(240)	(407)	(584)
Provisions for liabilities and charges	4.13	<u>(188)</u>	<u>—</u>	<u>—</u>
<b>Net assets</b>		<u>2,593</u>	<u>3,342</u>	<u>4,657</u>
<b>Capital and reserves</b>				
Called up share capital	4.14	—	—	—
Profit and loss account	4.15	2,593	3,342	4,657
<b>Equity shareholders' funds</b>	4.16	<u>2,593</u>	<u>3,342</u>	<u>4,657</u>

### 3. Cash flow statements

	Note	Years ended 31 December		
		2001 £000	2002 £000	2003 £000
Net cash inflow from operating activities	4.20	1,902	3,862	3,687
Returns on investments and servicing of finance				
Interest received		10	4	20
Interest paid		(113)	(37)	—
Net cash (out)/inflow from returns on investments and servicing of finance		(103)	(33)	20
Taxation				
UK corporation tax paid – group relief	4.21	—	—	(1,080)
Tax paid		—	—	(1,080)
Capital expenditure and financial investment				
Purchase to acquire tangible fixed assets		(310)	(1,539)	(1,830)
Purchase to acquire intangible fixed assets		(693)	(8)	—
Receipts from sales of tangible fixed assets		26	33	314
		(977)	(1,514)	(1,516)
Net cash inflow before financing		822	2,315	1,111
Financing				
Repayment of inter-company borrowings		(1,277)	(1,263)	(87)
(Decrease)/increase in cash in the period	4.20	<u>(455)</u>	<u>1,052</u>	<u>1,024</u>



#### 4. Notes to the financial information

##### 4.1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information.

##### *Basis of preparation*

The financial information is prepared in accordance with applicable accounting standards and under the historical cost convention.

The auditors of the Company and PlusNet ASP Limited over the 3 year period were KPMG LLP.

##### *Basis of consolidation*

The consolidated financial information includes the financial statements of the company and its subsidiary undertakings made up to the 3 years ended 31 December 2001, 2002 and 2003. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

##### *Intangible fixed assets*

Expenditure on research is written off against profits in the year in which it is incurred.

Development expenditure on software applications is capitalised to the extent that its recovery is reasonably assured. These costs are amortised over the period to which revenue is expected to be derived from the application, subject to a maximum period of 5 years.

##### *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Network development costs	—	5 years
Computer equipment	—	5 years
Motor vehicles	—	3 years
Fixtures & fittings	—	15 years

Tangible fixed assets include capitalised employee costs and other costs directly attributable to either bringing computer equipment into working condition for its intended use within the business or developing and enhancing business operating systems.

##### *Leasing*

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

##### *Pensions*

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amounts charged against profits represents the contributions payable to the scheme in respect of the accounting period.

##### *Taxation*

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

##### *Deferred income*

Deferred income represents that portion of subscription fees taken out by customers but relating to a future period.

### *Stocks*

Stocks are stated at the lower of cost and net realisable value.

### *4.2 Turnover*

Service subscription income is recognised over the period to which it relates. Call revenue is recognised on the accruals basis.

All turnover has arisen from activities in the UK.

### *4.3 Operating profit*

	<i>Years ended 31 December</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating profit is stated after charging:			
Depreciation and other amounts written off tangible fixed assets	1,002	1,353	1,686
Amortisation of intangible fixed assets	224	50	50
Operating lease rentals	84	76	76
Research and development	173	—	—

Auditors' remuneration has been borne by Insight Enterprises Inc.

### *4.4 Particulars of staff*

The average number of persons employed (including directors) during the year was:

	<i>Years ended 31 December</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Customer support	51	54	47
Network operation	8	9	15
Application development	37	37	51
Administration and marketing	5	5	7
	101	105	120

The aggregate payroll costs of these persons:

	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Wages and salaries	1,990	2,035	2,698
Social security costs	194	197	261
Other pension costs	14	16	17
	2,198	2,248	2,976

### *Directors' remuneration*

Remuneration of directors during the year was as follows:

	<i>Years ended 31 December</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Directors' emoluments	115	116	154
Loan note waived (see note 4.22)	—	20	80
	115	136	234

The table below analyses the number of share options held, granted and exercised in relation to the Company under the 2000 Long Term Incentive Plan Directors who held office during the three years:

	<i>Options at start of year Number</i>	<i>Options granted Number</i>	<i>Options exercised Number</i>	<i>Options at end of year Number</i>
2001				
EJ Crown	250,000	—	—	250,000
TA Crown	1,000,000	—	—	1,000,000
S Laybourne	<u>1,000,000</u>	<u>—</u>	<u>—</u>	<u>1,000,000</u>
	<i>Options at start of year Number</i>	<i>Options granted Number</i>	<i>Options exercised Number</i>	<i>Options at end of year Number</i>
2002				
EJ Crown	250,000	—	—	250,000
TA Crown	1,000,000	—	—	1,000,000
S Laybourne	<u>1,000,000</u>	<u>—</u>	<u>—</u>	<u>1,000,000</u>
	<i>Options at start of year Number</i>	<i>Options granted Number</i>	<i>Options exercised Number</i>	<i>Options at end of year Number</i>
2003				
EJ Crown (resigned 22 September 2003)	250,000	—	—	250,000
TA Crown (resigned 7 July 2004)	1,000,000	—	—	1,000,000
S Laybourne (resigned 7 July 2004)	<u>1,000,000</u>	<u>—</u>	<u>—</u>	<u>1,000,000</u>

Since December 2003, Mr Ashok Makanji has been appointed to the board of directors and held 25,000 share options at the time of his appointment.

On 7 July 2004 the share options held under the 2000 Long Term Incentive Plan were consolidated on a 2 for 1 basis. The number of share options held by directors following this consolidation were as follows:

	<i>Options held pre consolidation Number</i>	<i>Options held post consolidation Number</i>
A Makanji	<u>25,000</u>	<u>12,500</u>

The only director to receive emoluments in each financial period was Mr L A Strafford. The table below analyses his emoluments during the three years:

	<i>Salary and fees £000</i>	<i>Benefits £000</i>	<i>Total £000</i>
2001	100	13	113
2002	100	16	116
2003	<u>112</u>	<u>42</u>	<u>154</u>

The directors who held office at the end of each financial year had the following interests in the ordinary shares of the Company according to the register of directors' interests:

	<i>Ordinary shares</i>		
	<i>Of 0.0002p each 2001 %</i>	<i>Of 0.0002p each 2002 %</i>	<i>Of 0.0002p each 2003 %</i>
LA Strafford	<u>5</u>	<u>5</u>	<u>5</u>

None of the other directors who held office at the end of each financial year had any disclosable interest in the shares of the company.

TA Crown, EJ Crown and S Laybourne were also directors of Insight Enterprises Inc., and their interests in the shares of group companies are disclosed in that company's financial statements

#### 4.5 Interest receivable and similar income

	Years ended 31 December		
	2001	2002	2003
	£000	£000	£000
Interest receivable	<u>10</u>	<u>4</u>	<u>20</u>

#### 4.6 Interest payable and similar charges

	Years ended 31 December		
	2001	2002	2003
	£000	£000	£000
Interest payable to group undertakings	<u>113</u>	<u>37</u>	<u>—</u>

#### 4.7 Taxation

<i>Analysis of charge for the year</i>	Years ended 31 December		
	2001	2002	2003
	£000	£000	£000
<b>Current tax</b>			
UK Corporation tax based on results for the year	62	—	—
Adjustments in respect of prior year	(8)	15	—
Group relief – current year	185	783	547
Group relief – prior year	(2)	(11)	(30)
<b>Total current tax</b>	<u>237</u>	<u>787</u>	<u>517</u>
Deferred tax (See note 4.13)	(15)	(417)	—
<b>Tax on profit on ordinary activities</b>	<u>222</u>	<u>370</u>	<u>517</u>

	Years ended 31 December		
	2001	2002	2003
	£000	£000	£000
<b>Current tax reconciliation</b>			
Profit on ordinary activities before taxation	<u>757</u>	<u>1,119</u>	<u>1,832</u>
Current tax at 30% (2002 and 2001 30%)	227	335	550
<i>Effects of:</i>			
Expenses not deductible for tax purposes	4	30	—
Depreciation in excess of capital allowances	17	417	—
Other timing differences	(1)	—	(3)
Adjustment in respect of prior years	(10)	5	(30)
<b>Current tax charge (see above)</b>	<u>237</u>	<u>787</u>	<u>517</u>

#### 4.8 Earnings per share

The earnings per ordinary share reflects the share capital of PlusNet plc following the share reorganisation on 7 July 2004. The calculation is based on earnings of £535,000, £749,000 and £1,315,000 for the years ended 31 December 2001, 2002 and 2003 respectively, divided by ordinary shares of 25,000,000 being the weighted average number of ordinary shares in issue following the share reorganisation.

The fully diluted earnings per share is based on 26,361,396 ordinary shares for each of the years ended 31 December 2001, 2002 and 2003 respectively, allowing for the full conversion of outstanding share purchase options and earnings of £535,000, £749,000 and £1,315,000 arising during the respective periods.

<b>4.9 Intangible assets – Development costs</b>	<b>£000</b>
<i>Cost</i>	
At 1 January 2001	659
Additions	693
At 1 January 2002	1,352
Additions	8
Reclassification to tangible fixed assets	(1,111)
At 1 January 2003	249
Additions	—
At 31 December 2003	249
<i>Amortisation</i>	
At 1 January 2001	93
Charge for year	224
At 1 January 2002	317
Charge for year	50
Reclassification to tangible fixed assets	(221)
At 1 January 2003	146
Charge for year	50
At 31 December 2003	196
<i>Net book value</i>	
<b>At 31 December 2003</b>	<b>53</b>
At 31 December 2002	103
At 31 December 2001	1,035

On 1 January 2002, the trade and assets of PlusNet ASP Limited (then Insight ASP Limited) were transferred into PlusNet plc (then PlusNet Technologies Limited) at book value.

On performing a full review of the intangible software development costs transferred, a significant proportion of the costs relating to Portal (front end customer facing web sites) and Workplace (back end internal systems development) were reclassified as tangible fixed assets under FRS 15. Development costs in relation to Applications (individual web-based tools) continued to be capitalised under SSAP 13.

#### 4.10 Tangible fixed assets

	Computer equipment £000	Internal software development costs £000	Network development costs £000	Fixtures & fittings £000	Motor vehicles £000	Total £000
<i>Cost</i>						
At 1 January 2001	4,391	—	325	246	37	4,999
Additions	106	—	157	10	37	310
Group transfer	—	—	—	—	(37)	(37)
At 1 January 2002	4,497	—	482	256	37	5,272
Additions	580	649	190	70	50	1,539
Reclassification from intangible fixed assets	—	1,111	—	—	—	1,111
Disposals	—	—	—	—	(37)	(37)
At 1 January 2003	5,077	1,760	672	326	50	7,885
Additions	552	1,005	255	18	—	1,830
Group transfer	—	(423)	—	—	—	(423)
Disposals	—	—	—	—	(50)	(50)
At 31 December 2003	<u>5,629</u>	<u>2,342</u>	<u>927</u>	<u>344</u>	<u>—</u>	<u>9,242</u>
<i>Depreciation</i>						
At 1 January 2001	1,058	—	64	34	6	1,162
Charge for year	892	—	84	18	8	1,002
Group transfer	—	—	—	—	(11)	(11)
At 1 January 2002	1,950	—	148	52	3	2,153
Charge for year	927	281	115	20	10	1,353
Reclassification from intangible fixed assets	—	221	—	—	—	221
Disposals	—	—	—	—	(4)	(4)
At 1 January 2003	2,877	502	263	72	9	3,723
Charge for year	1,013	482	165	24	2	1,686
Group transfer	—	(148)	—	—	—	(148)
Disposals	—	—	—	—	(11)	(11)
At 31 December 2003	<u>3,890</u>	<u>836</u>	<u>428</u>	<u>96</u>	<u>—</u>	<u>5,250</u>
<i>Net book value</i>						
At 31 December 2003	<u>1,739</u>	<u>1,506</u>	<u>499</u>	<u>248</u>	<u>—</u>	<u>3,992</u>
At 31 December 2002	<u>2,200</u>	<u>1,258</u>	<u>409</u>	<u>254</u>	<u>41</u>	<u>4,162</u>
At 31 December 2001	<u>2,547</u>	<u>—</u>	<u>334</u>	<u>204</u>	<u>34</u>	<u>3,119</u>

#### 4.11 Debtors

	<i>Years ended 31 December</i>		
	2001 £000	2002 £000	2003 £000
Trade debtors	417	843	537
Amounts owed by group undertakings	195	60	398
Other debtors	22	44	19
Prepayments and accrued income	221	487	774
Loan note	—	80	—
Corporation tax recoverable	278	—	—
Deferred tax (see 4.13)	—	229	229
	<u>1,133</u>	<u>1,743</u>	<u>1,957</u>

#### 4.12 Creditors: amounts falling due within one year

	Years ended 31 December		
	2001 £000	2002 £000	2003 £000
Bank overdrafts	11	—	—
Trade creditors	329	1,918	1,650
Amounts owed to group undertakings	1,545	147	—
Corporation tax	427	691	471
Other tax and social security	151	504	417
Other creditors	21	61	70
Accruals and deferred income	183	442	756
	<u>2,667</u>	<u>3,763</u>	<u>3,364</u>

#### 4.13 Provision for liabilities and charges

##### Deferred tax

	Years ended 31 December		
	2001 £000	2002 £000	2003 £000
Accelerated capital allowances	188	(229)	(229)
Deferred tax provision/(asset)	<u>188</u>	<u>(229)</u>	<u>(229)</u>

The deferred tax assets in 2002 and 2003 have been classified as debtors in note 4.11 above.

#### 4.14 Share capital

	Years ended 31 December		
	2001 £	2002 £	2003 £
<b>Authorised</b>			
75,000,000 Equity ordinary shares of 0.0002p each	<u>150</u>	<u>150</u>	<u>150</u>
<b>Allotted, called up and fully paid</b>			
50,000,000 Equity ordinary shares of 0.0002p each	<u>100</u>	<u>100</u>	<u>100</u>

#### 4.15 Reserves

	Profit and loss account £000
Balance at 1 January 2001	2,058
Retained profit for the year	535
Balance at 1 January 2002	2,593
Retained profit for the year	749
Balance at 1 January 2003	3,342
Retained profit for the year	1,315
<b>Balance at 31 December 2003</b>	<u><u>4,657</u></u>

#### 4.16 Reconciliation of movements in shareholders' funds

	2001 £000	2002 £000	2003 £000
Profit for the financial year	535	749	1,315
Net addition to shareholders' funds	535	749	1,315
Opening shareholders' funds	2,058	2,593	3,342
Closing shareholders' funds	<u>2,593</u>	<u>3,342</u>	<u>4,657</u>

#### 4.17 Commitments

Annual commitments under non-cancellable operating leases as follows:

	2001		2002		2003	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£000	£000	£000	£000	£000	£000
Operating leases which expire:						
Within one year	—	—	—	—	—	—
In the second to fifth years inclusive	—	5	—	—	—	—
Over five years	76	—	76	—	76	—
	<u>76</u>	<u>5</u>	<u>76</u>	<u>—</u>	<u>76</u>	<u>—</u>

#### 4.18 Reconciliation of operating profit to net cash inflow from operating activities

	2001	2002	2003
	£000	£000	£000
Operating profit	860	1,152	1,812
Depreciation	1,002	1,353	1,686
Amortisation	224	50	50
Decrease/(increase) in stocks	30	(51)	(75)
Decrease/(increase) in debtors	10	(793)	(274)
(Decrease)/increase in creditors	(140)	1,984	311
(Decrease)/increase in deferred revenue	(84)	167	177
<b>Net cash inflow from operating activities</b>	<u>1,902</u>	<u>3,862</u>	<u>3,687</u>

#### 4.19 Reconciliation of net cash flow to movement in net funds

	2001	2002	2003
	£000	£000	£000
Change in net funds resulting from cashflows	(455)	1,052	1,024
Movement in net funds in period	<u>(455)</u>	<u>1,052</u>	<u>1,024</u>
Net funds at beginning of year	854	399	1,451
Net funds at end of year	<u>399</u>	<u>1,451</u>	<u>2,475</u>

#### 4.20 Analysis of changes in net funds

	<i>Cash</i>
	£000
Balance at 1 April 2000	<u>854</u>
Cash flow	<u>(455)</u>
Balance at 1 April 2001	<u>399</u>
Cash flow	<u>1,052</u>
Balance at 1 April 2002	<u>1,451</u>
Cash flow	<u>1,024</u>
Balance at 31 March 2003	<u>2,475</u>

#### 4.21 UK corporation tax

UK corporation tax paid relates to payments made to Insight Direct (UK) Limited in respect of group tax relief. Cash outflows amounted to £NIL in the 2 years ended 31 December 2002 as amounts due in relation to these periods were not paid over to Insight Direct (UK) Limited until the year ending 31 December 2003.



#### *4.22 Related party transactions*

During the year ended 31 December 2002, a loan note for £100,000 was issued to Mr LA Strafford, a director of the Company. The loan note was forgiven rateably over a period of 5 years from date of issue at £20,000 per annum. During the period of the loan, interest was payable on the note at 6.25 per cent. per annum.

The directors of the Company agreed to waive the entire balance outstanding effective as of 31 December 2003. Therefore as at 31 December 2003 £nil remained outstanding (2002: £80,000).

#### *4.23 Ultimate parent company and parent undertaking of larger group*

The parent undertaking and controlling party is Insight Enterprises Inc.

The largest group in which the results of the company are consolidated is that headed by Insight Enterprises Inc, incorporated in the USA. The smallest group in which they are consolidated is that headed by Insight Enterprises UK Limited, incorporated in England and Wales. The consolidated accounts of Insight Enterprises Inc., are available to the public and may be obtained from Insight Enterprises Inc., Investor Relations, 1305 West Auto Drive, Tempe, Arizona, 85284 USA or alternatively from the web-site at [www.insight.com](http://www.insight.com).

#### *4.24 Post balance sheet events*

On 7 July 2004, the issued and unissued 75,000,000 Ordinary Shares of 0.0002p each in the Company were consolidated into 75,000 New Ordinary Shares of 0.2p each.

On 7 July 2004, the authorised share capital was increased from £150 to £50,000 by the creation of 24,925,000 New Ordinary Shares of 0.2p each.

On 7 July 2004, the sum of £49,900 of the Company's profit and loss account was capitalised into 24,950,000 new Ordinary Shares of 0.2p each.

On 7 July 2004, the authorised share capital was further increased from £50,000 to £100,000 by the creation of 25,000,000 new Ordinary Shares of 0.2p each.

Since December 2003, the following changes have been made to the board of directors, all of which took place on 7 July 2004:

- Mr Ashok Mekanji was appointed
- Mr Neil Comer was appointed
- Mr Kevin Adams was appointed as chairman
- Mr Michael Sherwin was appointed
- Mr Tim Crown and Mr Stan Laybourne resigned

Yours faithfully

KPMG LLP

## PART V

### Unaudited pro forma statement of net assets

The unaudited pro forma statement of net assets has been prepared on the basis of the notes set out below and has been produced to illustrate the possible impact on the net assets of the Company as at 31 December 2003, as if the Admission had occurred on that date. It has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position and results of the Company.

	<i>As at 31 December 2003 £000 (1)</i>	<i>Intercompany adjustments £000 (2)</i>	<i>Placing £000 (3)</i>	<i>Proceeds of the exercise of options £000 (4)</i>	<i>Pro forma net assets of PlusNet total £000</i>
<b>Fixed assets</b>					
Intangible assets	53	—	—	—	53
Tangible assets	3,992	—	—	—	3,992
	<u>4,045</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,045</u>
<b>Current assets</b>					
Stocks	128	—	—	—	128
Debtors	1,957	(397)	—	—	1,560
Cash at bank and in hand	2,475	397	405	181	3,458
	<u>4,560</u>	<u>—</u>	<u>405</u>	<u>181</u>	<u>5,146</u>
<b>Creditors: Amounts falling due within one year</b>	<u>(3,364)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,364)</u>
<b>Net current assets/(Liabilities)</b>	<u>1,196</u>	<u>—</u>	<u>405</u>	<u>181</u>	<u>1,782</u>
<b>Total assets less current liabilities</b>	5,241	—	405	181	5,827
<b>Deferred income</b>	(584)	—	—	—	(584)
<b>Net assets</b>	<u><u>4,657</u></u>	<u><u>—</u></u>	<u><u>405</u></u>	<u><u>181</u></u>	<u><u>5,243</u></u>

Notes:

- (1) The net assets of the Company as at 31 December 2003 have been extracted from the Accountants' Report set out in Part IV of this document. At 31 December 2003, the Company had not been re-registered as a public limited company nor had its change of name taken effect; its re-registration does not affect the net assets of PlusNet
- (2) The Intercompany adjustments reflect the settlement of the intercompany debt of £397,000 between PlusNet and Insight on Admission.
- (3) The adjustments reflect the receipt of the net proceeds of the Placing of £405,000 after expenses of £1.8 million.
- (4) Receipt by the Company of the exercise price in connection with the exercise of 450,000 2000 LTIP options is conditional upon Admission. The exercise price for individual 2000 LTIP options upon grant ranged from \$0.31 to \$0.47 per share, but increased to a range of \$0.62 to \$0.94 as a consequence of the share reorganisation on 7 July 2004 (based on a \$/£ exchange rate of 0.54).

## PART VI

### Additional information

#### 1. The Company and its subsidiaries

- (a) The Company was incorporated in England on 15 November 1996 under the name of Force 9 Internet Limited with registered number 03274013 as a private company with limited liability under the Act. The Company was re-registered as a public company on 7 July 2004, under the name PlusNet plc.
- (b) The Company is a member of a group of which it is the holding company. Its wholly owned subsidiary is

<i>Name</i>	<i>Registered Office</i>	<i>Principal Activities</i>	<i>Issued share capital (fully paid)</i>
PlusNet ASP Limited	Technology Building, Terry Street, Sheffield S9 2BU	Dormant	£150

- (c) The principal activities of the Company are the provision of internet Connectivity and related products and services to UK customers. There are no exceptional factors that have influenced the Group's activities.

#### 2. Share capital

- (a) The Company was incorporated with an authorised share capital of £2,000 represented by 2,000 Ordinary Shares of £1 each of which the 2 subscriber shares were in issue. The following alterations in the authorised and issued share capital of the Company have taken place since incorporation:
- (i) on 4 December 1996, the Company issued a further 98 ordinary shares of £1 each;
  - (ii) on 31 July 2000, the authorised share capital of the Company was increased from £500,000 to £50,000,000 by the creation of 49,500,000 ordinary shares of £1 each;
  - (iii) on 27 November 2000, the authorised share capital of the Company was decreased from £50,000,000 to £150;
  - (iv) on 27 November 2000, the issued and unissued 150 ordinary shares of £1 each in the Company were sub-divided into 75,000,000 ordinary shares of 0.0002p each;
  - (v) on 7 July 2004, the issued and unissued 75,000,000 ordinary shares of 0.0002p each in the Company were consolidated into 75,000 Ordinary Shares of 0.2p each;
  - (vi) on 7 July 2004, the authorised share capital was increased from £150 to £50,000 by the creation of 24,925,000 new Ordinary Shares of 0.2p each; and
  - (vii) on 7 July 2004, the sum of £49,900 standing to the credit of the Company's profit and loss account was capitalised into 24,950,000 new Ordinary Shares of 0.2p each and issued pro-rata to those shareholders on the Company's register of members on that date.
- (b) By a special resolution of the Company passed on 7 July 2004 but conditional upon Admission:
- (i) the authorised share capital was increased from £50,000 to £100,000 by the creation of 25,000,000 new Ordinary Shares of 0.2p each;
  - (ii) the Directors were generally and unconditionally authorised for the purposes of section 80 of the Companies Act to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act) up to an aggregate nominal amount of £23,500, such authority to expire on 31 December 2005 or, if earlier, at the conclusion of the annual general meeting of the Company; and
  - (iii) the Directors were empowered until 31 December 2005 or, if sooner, until the conclusion of the annual general meeting of the Company to allot equity securities (as

defined in section 94(2) of the Companies Act) pursuant to the authority referred to in paragraph 2(b)(ii) above as if section 89 of the Companies Act did not apply to any such allotment, such power being limited to:

- (aa) the allotment and issue of 2,450,102 Ordinary Shares pursuant to the Placing;
  - (bb) the allotment and issue of equity securities pursuant to the 2000 LTIP;
  - (cc) the allotment of equity securities in connection with an offer or issue to holders of Ordinary Shares where the equity securities respectively attributable to the interest of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them but including in connection with such an issue, the making of such arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or problems under the laws of any territory or the requirements of any regulatory body or any stock exchange; and
  - (dd) the allotment (other than pursuant to the powers referred to in sub-paragraphs (aa), (bb) and (cc) above) of equity securities up to an aggregate nominal value of £5,580.
- (c) The authorised and issued share capital of the Company (i) as at the date of this document and (ii) following completion of the Placing is set out below:

	<i>Authorised</i>	<i>Number</i>	<i>Issued and fully paid</i>	<i>No. of Ordinary shares</i>
(i) Current	£50,000	25,000,000	£50,000	25,000,000
(ii) Proposed	£100,000	50,000,000	£55,800.20	27,900,102

- (d) As at the date of this document, the following share options have been granted and are outstanding:

<i>Scheme</i>	<i>No. of Ordinary shares</i>	<i>Exercise price</i>	<i>Exercise Period</i>
2000 LTIP	1,728,750	\$0.62 to \$0.94	14 July 2004 – 5 May 2006
2004 EMI Scheme	849,558	90p	8 July 2007 – 8 July 2009
2004 PR Scheme	1,074,154	90p	8 July 2007 – 8 July 2009

- (e) The authorised but unissued share capital of the Company following the Placing will be £44,200, representing approximately 44.2 per cent. of the Company's authorised share capital, which the Directors will be authorised to allot pursuant to the authority referred to in paragraph 2(b) above.
- (f) Save for the allotments referred to in paragraph 2(a) above, since incorporation no capital of the Company has been allotted for cash or for a consideration other than cash.
- (g) Save for the issue of the Placing Shares and the grant of options under the Share Option Schemes, no capital of the Company is proposed to be issued or is under option or is agreed conditionally or unconditionally to be put under option.

### 3. Memorandum and Articles of Association

The principal objects of the Company, which are set out in clause 3 of its Memorandum of Association, include carrying on any trade or business which can, in the opinion of the Directors, be advantageously carried on by the Company.

The Articles of Association of the Company contain, *inter alia*, provisions to the following effect:

#### (a) Voting rights

Subject to paragraph (f) below, and to any special terms as to voting upon which any shares may for the time being, be held, on a show of hands every member who (being an individual) is present in

person or (being a corporation) is present by its duly appointed representative shall have one vote and on a poll every member present in person or by representative or proxy shall have one vote for every ordinary share in the capital of the Company held by him. A proxy need not be a member of the Company.

(b) *Variation of rights*

If at any time the capital of the Company is divided into different classes of shares all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy one-third in nominal value of the issued shares of that class.

(c) *Alteration of capital*

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal value, sub-divide all or any of its shares into shares of a smaller nominal value and cancel any shares not taken, or agreed to be taken, by any person.

The Company may, subject to the Companies Act, by special resolution reduce or cancel its share capital or any capital redemption reserve or share premium account.

Subject to and in accordance with the provisions of the Companies Act, the Company may purchase its own shares (including any redeemable shares), provided that the Company shall not purchase any of its shares unless such purchase has been sanctioned by an extraordinary resolution passed at a separate meeting of the holders of any class of shares convertible into equity share capital of the Company.

(d) *Transfer of shares*

A member may transfer all or any of his shares (1) in the case of certificated shares by instrument in writing in any usual or common form or in such other form as may be approved by the Directors and (2) in the case of uncertificated shares, through CREST in accordance with and subject to the CREST Regulations and the facilities and requirements of the relevant system concerned. The instrument of transfer of a certificated share shall be executed by or on behalf of the transferor and, if the share is not fully paid, by or behalf of the transferee. The Directors may in their absolute discretion refuse to register a transfer of any share which is not fully paid, provided that dealings in the shares are not prevented from taking place on an open and proper basis. Subject to paragraph (f) below, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

(e) *Dividends*

- (i) The Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time pay such interim dividends as appear to the Directors to be justified.
- (ii) Subject to the rights of persons, if any, holding shares with special dividend rights, and subject to paragraph (f) below, all dividends shall be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.
- (iii) All dividends unclaimed for a period of twelve years after having been declared shall if the Directors so resolve be forfeited and shall revert to the Company.
- (iv) There is no fixed date on which an entitlement to dividend arises.

(f) *Suspension of rights*

If a member or any other person appearing to be interested in shares held by such shareholder has been duly served with notice under section 212 of the Companies Act and is in default in supplying to the Company within 14 days (or such other period as may be specified in such notice) the information thereby, required, then (if the Directors so resolve) such member shall not be entitled to vote or to exercise any right conferred by membership in relation to meetings of the Company in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25 per cent. of the issued shares of that class, the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arms length sale.

(g) *Return of capital*

Subject to any preferred, deferred or other special rights, or subject to such conditions or restrictions to which any shares in the capital of the Company may be issued, on a winding-up or other return of capital, the holders of ordinary shares are entitled to share in any surplus assets pro rata to the amount paid up on their ordinary shares. A liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Companies Acts, divide amongst the members in specie or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. A liquidator may also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members.

(h) *Pre-emption rights*

There are no rights of pre-emption under the articles of association of the Company in respect of transfers of issued Ordinary Shares.

In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment by existing shareholders on a pro rata basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

(i) *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future (including uncalled capital) and, subject to section 80 of the Companies Act, to issue debenture stock or any other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate amount at any one time owing by the Company and all its subsidiaries in respect of monies borrowed by them or any of them (exclusive of monies borrowed by the Company or any of its subsidiaries from such companies) shall not at any time without the previous sanction of the shareholders in general meeting exceed the higher of £20 million or a sum equivalent to 2.5 times the aggregate of the nominal capital of the Company for the time being issued and paid up and the amounts standing to the credit of the share premium account, capital redemption reserve and profit and loss account of the Company and each of its subsidiary companies.

#### **4. Share Option Schemes**

(a) *2004 EMI Scheme*

(i) *Status of the 2004 EMI Scheme*

The 2004 EMI Scheme is designed to permit the Company to grant qualifying enterprise management incentive ("EMI") share options within the meaning of Schedule 5 Income Tax (Earnings and Pensions) Act 2003 over Ordinary Shares.

(ii) *Eligibility*

In order to qualify for participation in the 2004 EMI Scheme, an employee must be employed by the Company or one of its subsidiaries for at least 25 hours per week or, if less, for at least 75 per cent. of his working time.

No option may be granted to an employee at a time when such a grant would be in breach of rule 19 (restrictions on deals) of the AIM Rules.

(iii) *Administration*

The 2004 EMI Scheme is governed by its rules and is administered by the remuneration committee of the Board of Directors ("the Committee"). The Committee will have absolute discretion in selecting the persons to whom options under the 2004 EMI Scheme are to be granted and (subject to the limits set out below) in determining the number and terms of options to be so granted. No person is entitled as of right to be granted an option.

(iv) *Option Price*

The holder of an option under the 2004 EMI Scheme will be entitled to acquire Ordinary Shares at a price to be determined by the Committee at the time when the option is granted (such price not to be less than the market value of an Ordinary Share on the date of grant or on the dealing day preceding the date of grant. The option may relate to new Ordinary Shares or existing issued Ordinary Shares.

(v) *Grant periods*

Options may be granted within 42 days of the adoption of the 2004 EMI Scheme or 38 days after the fourth dealing day following the announcement of the annual or half year results of the Company in any year.

No consideration is payable for the grant of an option.

No options may be granted more than ten years after the date of adoption of the 2004 EMI Scheme.

(vi) *Exercise and lapse of options*

Options may only be exercised between the second and fifth anniversaries of the date of grant ("vested options") by a person who remains a director or employee. No option may be exercised at a time when such exercise would be in breach of rule 19 (restrictions on deals) of the AIM Rules.

If an option holder ceases to be employed within the Group due to death or incapacity (or in any other exceptional circumstance as determined by the Committee in its absolute discretion), all options (whether or not they have become vested options) may be exercised within 7 days following the date of cessation of employment (or, in the case of death, within 12 months from the date of death). If not so exercised, the options shall lapse.

If an option holder ceases to be employed within the Group in any other circumstance, all options then held by him which are not vested options shall lapse immediately. All vested options must be exercised within 7 days of the date of cessation or otherwise lapse.

In the event of an amalgamation, reconstruction, take-over or voluntary winding up of the Company, all options (whether or not they have become vested options) may be exercised within a stated time period (or otherwise lapse).

As a condition of exercise of an option, an option holder must indemnify the Company or any member of the Group for any liability to income tax, employee's National Insurance contributions or employer's National Insurance contributions arising as a result of the exercise of his option.

Options will not be transferable.

(vii) *Issue and listing of shares*

Ordinary Shares will be allotted and issued or transferred within 30 days of the exercise of an option. Ordinary Shares allotted will rank in full for all dividends or other distributions payable by reference to a record date occurring on or after the date of allotment of such shares. Ordinary Shares transferred on the exercise of an option shall be transferred without the benefit of any rights attaching to the shares by reference to a

record date preceding the date of exercise. In all other respects the Ordinary Shares so issued or transferred shall be identical and rank *pari passu* with the fully paid registered Ordinary Shares in issue on the date of exercise.

(viii) *Limits applying to the 2004 EMI Scheme*

No option may be granted if immediately following the grant of such option the aggregate nominal value of Ordinary Shares in the Company issued or then capable of being issued pursuant to options granted under the 2004 EMI Scheme within the immediately preceding period of ten years and issued or then capable of being issued pursuant to options granted or rights obtained in such ten year period under any other share option or profit sharing scheme approved by the Company would exceed 10 per cent. of the nominal value of the ordinary share capital of the Company at that time in issue. For the purpose of this limit, options granted prior to Admission are excluded from account.

No option may be granted if immediately following the grant of such option the aggregate nominal value of Ordinary Shares in the Company issued or then capable of being issued pursuant to options granted under the 2004 EMI Scheme would exceed 5 per cent. of the nominal value of the ordinary share capital of the Company at that time in issue.

(ix) *Individual limits*

The Committee intends the total market value of Ordinary Shares over which an individual may be granted options under the 2004 EMI Scheme (and any other discretionary employee scheme operated by the Company), in any financial year of the Company, excluding options granted on Admission, will not exceed one times the individual's rate of remuneration (excluding bonuses, commissions and benefits in kind) at the date of grant, save in exceptional circumstances.

(x) *Variations in share capital*

In the event of any variation of or increase in the share capital of the Company, the number of shares subject to options and/or the option price may be adjusted by the Board of Directors.

(xi) *Amendments*

The Board of Directors will have the power to amend the rules of the 2004 EMI Scheme. However, the rules cannot be altered to adversely affect any subsisting options (other than to benefit the administration of the 2004 EMI Scheme, take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for any option holder or a member of the Group) without such consent of the option holders as would be required under the provisions of the Company's articles of association if the options constituted a single class of capital.

(b) *2004 PR Scheme*

(i) *Status of the 2004 PR Scheme*

The 2004 PR Scheme is designed to permit the Company to grant both qualifying enterprise management incentive ("EMI") share options within the meaning of Schedule 5 Income Tax (Earnings and Pensions) Act 2003 and also non-qualifying options over Ordinary Shares.

(ii) *Eligibility*

In order to qualify for participation in the 2004 PR Scheme, an employee must be employed by the Company or one of its subsidiaries for at least 25 hours per week or, if less, for at least 75 per cent. of his working time.

No option may be granted to an employee at a time when such a grant would be in breach of rule 19 (restrictions on deals) of the AIM Rules.



(iii) *Administration*

The 2004 PR Scheme is governed by its rules and is administered by the remuneration committee of the Board of Directors ("the Committee"). The Committee will have absolute discretion in selecting the persons to whom options under the 2004 PR Scheme are to be granted and (subject to the limits set out below) in determining the number and terms of options to be so granted. No person is entitled as of right to be granted an option.

(iv) *Option Price*

The holder of an option under the 2004 PR Scheme will be entitled to acquire Ordinary Shares at a price to be determined by the Committee at the time when the option is granted (such price not to be less than the market value of an Ordinary Share on the date of grant or on the dealing day preceding the date of grant). The option may relate to new Ordinary Shares or existing issued Ordinary Shares.

(v) *Performance condition*

The exercise of options under the 2004 PR Scheme will in normal circumstances be conditional upon the achievement of an objective performance condition to be determined by the Committee when options are granted. It is intended that the performance condition will relate to the financial performance of the Company over more than one financial year (up to a maximum of five financial years). It is likely that earnings per share will be used to measure financial performance (although this is subject to further review by the Committee).

(vi) *Grant periods*

Options may be granted within 42 days of the adoption of the 2004 PR Scheme or 38 days after the fourth dealing day following the announcement of the annual or half year results of the Company in any year.

No consideration is payable for the grant of an option.

No options may be granted more than ten years after the date of adoption of the 2004 PR Scheme.

(vii) *Exercise and lapse of options*

Subject to satisfaction of the relevant performance condition or conditions, (i) one third of the options shall become exercisable on the third anniversary of the date of grant; (ii) a further third of the options shall become exercisable on the fourth anniversary of the date of grant; and (iii) the final third of the options shall become exercisable on the fifth anniversary of the date of grant. All options which become exercisable in the manner referred to in this paragraph shall be "vested options".

If an option holder ceases to be employed within the Group, all options then held by him which have not become vested options shall lapse immediately. All vested options must be exercised within 7 days following the date of cessation of employment (or, in the case of death, within 12 months from the date of death) or otherwise lapse.

If an option holder ceases to be employed within the Group due to death or incapacity (or in any other exceptional circumstances as determined by the Committee in its absolute discretion), all options then held by him which have not become vested options shall lapse immediately and all vested options shall become immediately exercisable but must be exercised within 7 days following the date of cessation of employment or, in the case of death, within 12 months from the date of death. If not so exercised the options will lapse in full.

In the event of an amalgamation, reconstruction, take-over or voluntary winding up of the Company at any time after the third anniversary of the date of grant, all options which would become vested options upon the next anniversary of the date of grant may be exercised within a stated time period (or otherwise lapse).

As a condition of exercise of an option, an option holder must indemnify the Company or any member of the Group for any liability to income tax, employee's National Insurance contributions or employer's National Insurance contributions arising as a result of the exercise of his option.

Options will not be transferable.

(viii) *Issue and listing of shares*

Ordinary Shares will be allotted and issued or transferred within 30 days of the exercise of an option. Ordinary Shares allotted will rank in full for all dividends or other distributions payable by reference to a record date occurring on or after the date of allotment of such shares. Ordinary Shares transferred on the exercise of an option shall be transferred without the benefit of any rights attaching to the shares by reference to a record date preceding the date of exercise. In all other respects the Ordinary Shares so issued or transferred shall be identical and rank *pari passu* with the fully paid registered Ordinary Shares in issue on the date of exercise.

(ix) *Limits applying to the 2004 PR Scheme*

No option may be granted if immediately following the grant of such option the aggregate nominal value of Ordinary Shares in the Company issued or then capable of being issued pursuant to options granted under the 2004 PR Scheme within the immediately preceding period of ten years and issued or then capable of being issued pursuant to options granted or rights obtained in such ten year period under any other share option or profit sharing scheme approved by the Company would exceed 10 per cent. of the nominal value of the ordinary share capital of the Company at that time in issue. For the purpose of this limit, options granted prior to Admission are excluded from account.

No option may be granted if immediately following the grant of such option the aggregate nominal value of Ordinary Shares in the Company issued or then capable of being issued pursuant to options granted under the 2004 PR Scheme would exceed 5 per cent. of the nominal value of the ordinary share capital of the Company at that time in issue.

(x) *Individual Limits*

The Committee intends the total market value (at the date of grant) of Ordinary Shares over which an individual may be granted options under the 2004 PR Scheme (and any other discretionary employee scheme operated by the Company), in any financial year of the Company excluding options granted on Admission will not exceed one times the individual's rate of remuneration (excluding bonuses, commissions and benefits in kind) at the date of grant, save in exceptional circumstances.

(xi) *Variations in share capital*

In the event of any variation of or increase in the share capital of the Company, the number of shares subject to options and/or the option price may be adjusted by the Board of Directors.

(xii) *Amendments*

The Board of Directors will have the power to amend the rules of the 2004 PR Scheme. However, the rules cannot be altered to adversely affect any subsisting options (other than to benefit the administration of the 2004 PR Scheme, take account of a change in

legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for any option holder or a member of the Group) without such consent of the option holders as would be required under the provisions of the Company's articles of association if the options constituted a single class of capital.

## 5. Directors' and other interests

- (a) The interests of the Directors, including the interests of their spouses and infant children and the interests of any persons connected with them within the meaning of section 346 of the Companies Act ("Connected Person"), all of which are beneficial in the issued share capital of the Company which (i) have been notified to the Company pursuant to sections 324 or 328 of the Companies Act, or (ii) are required to be entered in the register maintained under section 325 of the Companies Act, or (iii) are interests of a Connected Person which would, if the Connected Person were a Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known or could with reasonable diligence be ascertained by the Director, as at the date of publication of this document and as they are expected to be immediately following completion of the Placing, are as follows:

	<i>Present</i>		<i>Following Admission</i>	
	<i>Ordinary Shares</i>	<i>Per cent.</i>	<i>Ordinary Shares</i>	<i>Per cent.</i>
Lee Strafford	1,250,000	5.0	1,345,204	4.8
Ashok Makanji	nil	nil	40,366	0.1
Neil Comer	nil	nil	35,701	0.1
Kevin Adams	nil	nil	22,222	0.1
Michael Sherwin	nil	nil	20,000	0.1

- (b) The Directors are also interested in unissued Ordinary Shares under share options held by them pursuant to the Share Option Schemes as follows:

	<i>Exercise Price (p)</i>	<i>Ordinary Shares</i>	<i>Latest exercise date/Exercise period</i>
Lee Strafford	90	139,500	8 July 2007 – 8 July 2009
Ashok Makanji	90	125,550	8 July 2007 – 8 July 2009
Neil Comer	90	125,550	8 July 2007 – 8 July 2009

- (c) Save as disclosed above, none of the Directors has any interests in the share capital or loan capital of the Company or any of its subsidiaries nor does any person connected with the Directors (within the meaning of section 346 of the Companies Act) have any such interests, whether beneficial or non-beneficial.
- (d) In addition to their directorships in the Company, the Directors have held the following directorships and/or been a partner in the following partnerships within the five years prior to the date of this document:

<i>Name</i>	<i>Current</i>	<i>Previous</i>
Kevin Adams	Intec Telecom Systems plc	Admiral Software Limited
	Independent Technology Systems Limited	Admiral Training Services Limited
	Independent Technology Systems S. L. Unipersonal	Blyth Software Limited
	Independent Technology Systems (Asia) Pte Limited	
	Intec USA, Inc	
	Independent Technology Systems America, Inc	
	Intec Telecom Systems Denmark A/S	
	Insight Direct (GB) Limited	Network Telephony Solutions Limited
Lee Strafford		Insight ASP (Holdings) Limited

<i>Name</i>	<i>Current</i>	<i>Previous</i>
Lee Strafford (continued)		Kukwe Limited Insight Development Corporation Limited Jasper Computing Limited
Ashok Makanji	None	None
Robert Moya	BIGe Real Estate Inc. Insight Direct (UK) Limited Insight Enterprises UK Limited Insight Direct (GB) Limited Insight UK Acquisitions Limited Insight Direct USA, Inc. Insight Public Sector, Inc. Insight North America, Inc. Insight Canada, Inc. Direct Alliance Corporation Insight Direct Worldwide, Inc. Marketplace Agent, Inc. Treasure Chest Computers, Inc. Insight Bowl, Inc.	Quarles & Brady LLP Insight Services Corporation Comark, Inc. GSPED, Inc. AZGSPED, Inc.
Neil Comer	None	None
Michael Sherwin	Games Workshop Group PLC Games Workshop Ltd Games Workshop International Ltd Games Workshop Deutschland Ltd Games Workshop Retail Ltd Games Workshop Trustee Ltd Games Workshop Productions Ltd Games Workshop Plastics Ltd Games Workshop Tooling Ltd GW PBM Ltd GW Books Ltd Warhammer Historical Wargames Ltd Warhammer Records Ltd Warhammer Music Ltd Citadel Miniatures Ltd Marauder Miniatures Ltd Flame Publications Ltd Warhammer Online Ltd GW US Holdings Ltd GW Interactive Ltd Games Workshop S.L. (Spain) GW OZ (PTY) Limited G W Limited (New Zealand) Limited GW Limited (HK) GW Italia Retail S.r.l GW Deutschland GmbH GW Inc (USA) Sabertooth Games, Inc. (USA)	None

- (e) Robert Moya was a partner in Gaston & Snow, a Massachusetts law firm of around 200 partners and 300 lawyers, which dissolved in 1991. The partnership filed for protection from creditors under Chapter 11 of the US bankruptcy code, in part, because of the complexities in

winding up such a large law firm. Total claims, including those relating to all leasehold properties of the partnership, were in the region of US\$50 million. In 1993, Robert Moya discharged his assessed share of the liabilities, in full settlement of his obligations as determined by the independent trustee.

- (f) Save as disclosed above, no Director:
- (i) has any unspent convictions in relation to indictable offences; or
  - (ii) has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such Director; or
  - (iii) has been a director of any company which, while he was a director or within 12 months after he ceased to be a director, had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or
  - (iv) has been a partner of any partnership which, while he was a partner or within 12 months after he ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or
  - (v) has had any public criticism by any statutory or regulatory authorities (including designated professional bodies); or
  - (vi) has been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of any company.
- (g) Save as disclosed in paragraph 5(a) above, and as set out below, the Directors are not aware of any person, directly or indirectly, jointly or severally, who is interested in 3 per cent. or more of the issued share capital of the Company:

	<i>Present</i>		<i>Following Admission</i>	
	<i>Ordinary Shares</i>	<i>Per cent.</i>	<i>Ordinary Shares</i>	<i>Per cent.</i>
Insight GB	23,750,000	95.0	11,111,111	45.3

- (h) Save as disclosed in paragraphs 5(a) and (g) above, the Directors are not aware of any person, directly or indirectly, jointly or severally, who exercises or could exercise control over the Company.
- (i) There are no loans made or guarantees granted or provided by any member of the Group to or for the benefit of any Director.
  - (j) No Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Company or any of its subsidiaries and remains in any respect outstanding or unperformed.
  - (k) Pursuant to the Insight Incentive Scheme, Insight GB has agreed, as a reward for their past contribution towards enhancing the success and value of the Company, to gift to the Executive Directors and the Senior Managers a cash amount out of the net proceeds to be received by Insight GB from the sale of the Insight Sale Shares.

Following Admission, pursuant to the Insight Incentive Scheme, Insight GB has agreed to gift to the Executive Directors and Senior Managers Ordinary Shares and/or a cash amount equivalent to 12.5 per cent. of the gain made by Insight GB from the future sale or sales by Insight GB of the balance of its shareholding. The gain made by Insight GB will be based, generally, on the total value at which Ordinary Shares will be sold by Insight GB less the proportion of Insight GB's initial investment in PlusNet, as agreed by the Executive Directors, the Senior Managers and Insight GB, that these Ordinary Shares represent.

Under the terms of the Insight Incentive Scheme, Insight GB has agreed to indemnify PlusNet for the employer's national insurance contributions associated with the Insight Incentive Scheme.

- (l) Eric Crown, Timothy Crown, Robertson Jones, Stanley Laybourne and Larry Gunning are all directors of Insight, the ultimate holding company of Insight GB, and are therefore deemed to be acting in concert with Insight GB under the rules of the City Code.

On Admission, their interests in 2000 LTIP options are as follows:

	<i>Options</i>	<i>Exercise Price</i>	<i>Exercise Period</i>
Eric Crown	500,000	\$0.62	14 July 2004 – 5 May 2006
Timothy Crown	500,000	\$0.62	14 July 2004 – 5 May 2006
Robertson Jones	25,000	\$0.62	14 July 2004 – 5 May 2006
Larry Gunning	25,000	\$0.62	14 July 2004 – 5 May 2006
Stanley Laybourne	125,000	\$0.62	14 July 2004 – 5 May 2006

#### 6. Directors' service agreements

- (a) Lee Strafford has entered into a service agreement with the Company dated 8 July 2004 for an initial period of 2 years and thereafter, subject to termination upon 12 months' notice by either party. The agreement provides for an annual salary of £140,000, membership of a private medical scheme, life assurance cover and membership of the company's pension scheme.
- (b) Ashok Makanji has entered into a service agreement with the Company dated 8 July 2004 for an initial period of 2 years and thereafter, subject to termination upon 12 months' notice by either party. The agreement provides for an annual salary of £100,000, membership of a private medical scheme, life assurance cover and membership of the Company's pension scheme.
- (c) Neil Comer has entered into a service agreement with the Company dated 8 July 2004 for an initial period of 2 years and thereafter, subject to termination upon 12 months' notice by either party. The agreement provides for an annual salary of £100,000, membership of a private medical scheme, life assurance cover and membership of the Company's pension scheme.
- (d) The services of Kevin Adams as non-executive Director and Chairman are provided under the terms of an agreement between the Company and Kevin Adams dated 8 July 2004 for an initial period of one year, continuing thereafter subject to termination upon at least 3 months' notice, at an initial fee of £60,000 per annum.
- (e) The services of Robert Moya as non-executive Director are provided under the terms of an agreement between the Company and Robert Moya dated 8 July 2004 for an initial period of one year, continuing thereafter subject to termination upon at least 3 months' notice, at an initial fee of £30,000 per annum.
- (f) The services of Michael Sherwin as non-executive Director are provided under the terms of an agreement between the Company and Michael Sherwin dated 8 July 2004 for an initial period of one year, continuing thereafter subject to termination upon at least 3 months' notice, at an initial fee of £30,000 per annum.
- (g) Save as set out in paragraphs (a) (b) and (c) above, there are no service agreements in existence between any of the Directors and the Company or its subsidiary which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.
- (h) The aggregate remuneration paid or payable and benefits in kind granted to the Directors for the financial year ended 31 December 2003 was £234,000 and is estimated to be £460,000 for the current financial period ending 31 December 2004 under the arrangements in force at the date of this document.

#### 7. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries during the two years preceding the date of this document and are or may be material:

- (a) A nominated adviser and broker agreement dated 8 July 2004 between the Company (1) the Directors (2) and Baird as nominated adviser and broker (3) pursuant to which the Company has appointed Baird to act as nominated adviser and broker to the Company for the purposes of AIM commencing on the date of the agreement for an initial period of 12 months and thereafter subject to termination on 3 months' notice by the Company or Baird to the other. The Company has agreed to pay to Baird a fee of £50,000 per annum. The Company has given an indemnity to Baird in relation to the provision by Baird of its services under the agreement.
- (b) A placing agreement dated 8 July 2004 between Baird (1), the Directors (2), the Company (3), Insight GB (4) and Insight (5), pursuant to which Baird has agreed to use its reasonable endeavours to arrange for placees to subscribe the New Ordinary Shares and/or purchase the Insight Sale Shares at the Placing Price, or itself to subscribe or purchase any such shares at the Placing Price not otherwise subscribed or purchased under the Placing. The agreement is conditional on certain matters, including Admission taking place on or before 31 July 2004. The Company will pay to Baird a corporate finance fee and a commission of 4 per cent. on the aggregate value of the New Ordinary Shares (less 224,006 New Ordinary Shares, being those New Ordinary Shares being subscribed by the Executive Directors and Senior Managers under the Insight Incentive Scheme) at the Placing Price. The agreement provides for the Company to pay all expenses of and incidental to the Placing and the application for Admission (save for the commissions which the Selling Shareholders have agreed to pay pursuant to the Selling Shareholder Agreement). In addition, Insight GB has agreed to pay to Baird a commission of 4 per cent. on the aggregate value of the Insight Sale Shares at the Placing Price. Pursuant to this agreement, Baird has agreed to receive part of the corporate finance fee referred to above in Placing Shares at the Placing Price representing one per cent. of the issued share capital of PlusNet immediately after Admission. Baird has agreed that it will not dispose of these Ordinary Shares until the announcement of the Company's results for the six month period ending 30 June 2005 at the earliest.

The Company, the Directors, Insight GB and Insight have given certain warranties and indemnities (save that the Non-executive Directors have not given the indemnities) to Baird in relation to this document, the Placing and the business of PlusNet. The Executive Directors and Insight GB and Insight have given certain tax indemnities to the Company.

Baird may terminate its obligations under the agreement up to Admission in certain circumstances, including for a material breach of the agreement or the warranties contained in the agreement, or in the event of an event of *force majeure*, or in the event of a material adverse change in or affecting the PlusNet business.

- (c) Lock-in and orderly marketing deeds dated 8 July 2004 between certain persons and Insight (on the one hand) and Baird and the Company (on the other). Pursuant to these agreements and conditional on Admission, certain shareholders, the details of which are set out below, have agreed with Baird and the Company (subject to certain exceptions):
- not without the prior written consent of Baird to dispose of any Ordinary Shares until (i) the announcement of the Company's interim results for the six month period ending 30 June 2006 (in the case of certain Directors and the Senior Managers) or (ii) the announcement of PlusNet's interim results for the 6 month period ending 30 June 2005 (in the case of Insight GB and certain holders of 2000 LTIP options); and
  - not at any time thereafter whilst Baird remains as broker to the Company make any such disposal as is referred to above otherwise than through Baird, subject to certain conditions.
- (d) A selling shareholder agreement dated 8 July 2004 between the Selling Shareholders (save for Insight GB) (1), Baird (2) and the Company (3) pursuant to which Baird has agreed to use its reasonable endeavours to arrange for placees to purchase the Management Sale Shares and 2000 LTIP Sale Shares at the Placing Price, or itself to purchase such shares at the Placing

Price. The agreement is conditional upon the Placing Agreement becoming unconditional. The Selling Shareholders (save for Insight GB) will pay to Baird a commission of 4 per cent. on the aggregate value of such shares at the Placing Price. The Company has undertaken to Baird to distribute the proceeds of the sale of such shares to the Selling Shareholders (save for Insight GB).

- (e) A relationship agreement dated 8 July 2004 between the Company (1) and Insight (2) pursuant to which Insight has agreed (*inter alia*) that, for so long as it holds not less than 30 per cent. of the voting rights exercisable at general meetings of the Company, it will procure that (i) the Company is capable of carrying on its business independently of Insight; (ii) any agreement, transaction or relationship between Insight and the Company will be at arm's length and on a normal commercial basis; and (iii) any director of the Company associated with Insight will not vote or participate in any discussion at any meeting of the board of directors of the Company in relation to any matter which is the subject of any conflict or potential conflict of interest between Insight and the Company. Insight has also agreed that, for so long as it holds not less than 30 per cent. of the voting rights exercisable at general meetings of the Company, it will not, without the prior written consent of the Company, either (i) acquire any interest in the share capital of the Company; or (ii) make a general offer for all or part of the share capital of the Company, subject to certain limitations. The agreement also contains provisions which require the Company to supply Insight with certain financial information to enable Insight to satisfy its financial reporting requirements (further details of which are set out in paragraph 14 of Part I of this document). The agreement is conditional upon Admission occurring.

## 8. Taxation

The following comments are intended as a general guide to the position under current United Kingdom tax legislation and what is understood to be the current practice of the Inland Revenue in the United Kingdom, and may not apply to certain classes of people (such as dealers in securities). **Shareholders who are in any doubt about their tax position should consult their professional adviser immediately.**

### (a) Taxation of dividends

Under current UK legislation, no tax will be withheld from any dividend paid by the Company.

A UK resident individual shareholder is currently entitled to a tax credit in respect of the dividend received of an amount equal to one tenth of the aggregate of the dividend and the tax credit.

A UK resident individual shareholder will be subject to UK income tax on the aggregate of the dividend and the related tax credit. This will be included in calculating the shareholder's total income for UK tax purposes. For the purposes of the higher rate tax, the dividend will be treated as the top slice of the shareholders' income. A taxpayer who is subject to tax at no more than the standard rate (currently 22 per cent.) will be subject to tax on the dividend and related tax credit at the rate of 10 per cent, the tax credit satisfying his liability in full. A higher rate tax payer and the trustees of a discretionary trust will be subject to income tax on the aggregate of the dividend received and the related tax credit at the higher rate of 32.5 per cent. for individuals and 25 per cent. for discretionary trustees but will be able to set off the tax credit against his liability. Accordingly, a shareholder who is a higher rate taxpayer will have further income tax to pay at the rate of 22.5 per cent. (equivalent to 25 per cent. of the dividend received).

To the extent that a UK resident shareholder's total tax credits exceed his overall UK income tax liability the excess is not recoverable from the Inland Revenue.

Subject to certain exceptions for some insurance companies, a UK resident corporate shareholder should not (unless carrying on a trade of dealing in shares) be liable to UK corporation tax on any dividend received from the Company.

Certain UK resident shareholders who are exempt from tax on dividends, including approved pension funds and most UK corporate shareholders, will not be entitled to claim a refund of all or part of the tax credit in respect of those dividends.



A non-UK resident shareholder is not generally entitled to a tax credit in respect of the dividend received. However, such a shareholder may be entitled to payment from the Inland Revenue of a proportion of the tax credit under a double tax convention or agreement between the UK and the country in which he is a citizen. A non-UK resident individual shareholder who is a citizen of a Commonwealth country or is an EEA national or a resident of the Isle of Man or the Channel Islands and certain other classes of person may also be entitled to a tax credit.

A non-UK resident shareholder may be subject to foreign tax on the dividend received. Such a shareholder should consult his own tax adviser on the incidence of taxation in the country in which he is resident, whether he is entitled to the benefit of any tax credit and the procedure for claiming payment.

*(b) Stamp duty and Stamp Duty Reserve Tax ("SDRT")*

The summary below does not apply to shares issued or transferred into depository or clearance services, to which special rules apply.

No liability to stamp duty or SDRT should arise on the allotment of New Ordinary Shares by the Company under the Placing. Stamp duty or SDRT at 0.5 per cent. will apply to transfers of the Sale Shares. The Selling Shareholders have undertaken under the terms of the Placing Agreement or the Selling Shareholder Agreement to bear any stamp duty or SDRT liability payable by the placees on the transfer of the Sale Shares.

Subsequent sales of Ordinary Shares inside CREST will generally be liable to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration.

Subsequent sales of Ordinary Shares outside CREST, will generally be liable to ad valorem stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration rounded to the nearest £5. SDRT is normally the liability of the purchaser or transferee of the Ordinary Shares and stamp duty is normally paid by the purchaser. However, where an instrument of transfer which completes an unconditional agreement to transfer shares is duly stamped within six years after the agreement was entered into (or it becomes unconditional) the stamp duty will cancel the SDRT liability and any SDRT paid can be recovered.

No stamp duty or SDRT will arise on a transfer of shares into CREST unless the transfer is itself for consideration, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the amount or value of the consideration given. Transfers of shares within CREST are generally liable to SDRT at the rate of 0.5 per cent.

*(c) Capital gains*

A shareholder resident (or ordinarily resident) for tax purposes in the UK who sells or otherwise disposes of his Ordinary Shares may incur a liability to tax on any capital gain which is realised.

A shareholder who is neither resident nor ordinary resident for tax purposes in the UK who sells or otherwise disposes of his Ordinary Shares will not normally be liable to capital gains tax on any gain which is realised. A liability to tax may arise in respect of a gain if such shareholder carried on a trade in the UK through a branch or agency and such Ordinary Shares are or have been used, held or acquired for the purposes of a trade carried on by the branch or agency.

**Any person who is in any doubt as to his tax position or who may be subject to tax in any other jurisdiction should consult his professional adviser.**

*(d) Enterprise Investment Schemes ("EIS") and Venture Capital Trust ("VCT") Legislation*

The Inland Revenue has given provisional confirmation, having considered the nature of the proposed activities of the Company, the type of shares being issued pursuant to the Placing and the intended application of the net proceeds, that the New Ordinary Shares being issued by the Company pursuant to the Placing should qualify as eligible shares and that the Company should qualify as a qualifying company for the purpose of EIS relief. The Inland Revenue have also indicated that the Company should, for VCT purposes, meet the relevant company conditions under Schedule 28B Income and Corporation Taxes Act 1988.

Under the EIS provisions, income tax relief equal to 20 per cent. of the amount subscribed for the New Ordinary Shares can be claimed by qualifying individuals up to their annual subscription limit, which in 2004/5 is £200,000. No income tax relief is available unless the amount subscribed for New Ordinary Shares in the company is £500 or more. Any gains arising on a disposal of the New Ordinary Shares after the subscriber has held them for 3 years should not be taxable provided the EIS income tax relief was given in respect of the subscription and not withdrawn.

Generally, qualifying individuals should be able to claim EIS deferral relief and thereby defer a chargeable gain arising on disposal of an asset to the extent that they subscribe for New Ordinary Shares within the time limits specified below. For EIS deferral relief there is generally no monetary or other limit on the amount of gains that can be deferred. The period for reinvestment commences one year before and ends three years after the disposal that gives risk to the gain for which deferral relief is claimed. Certain events can trigger the deferred gain coming back into charge, for example if the investor becomes non-UK resident for tax purposes.

The VCT scheme was introduced to encourage investment in companies by VCT's by providing for relief from income tax in respect of certain investments in VCT's (at 20 per cent. of the amount subscribed for in VCT shares up to the annual subscription limit, currently £200,000) and relief from capital gains tax on a disposal of the VCT shares held by the investor. In addition, subject to complying with the applicable legislation, the VCT should not be charged to tax in respect of any gain realised on the disposal of New Ordinary Shares.

The availability of the investment relief's depends upon, amongst other things, the personal circumstances of the individual investor and the Company continuing to satisfy the requirements of being a qualifying company. The Company does not make any representations as to whether any such investment will be or will continue to be one in respect of which relief under the EIS or VCT legislation will be available. Further, in order to make a valid claim for EIS relief, a Shareholder must receive an appropriate certificate from the Company.

The above information does not set out the provisions relating to EIS and VCT legislation in full and potential investors are advised to seek independent professional advice on whether they satisfy the conditions for relief and the circumstances in which the relief may be withdrawn.

## 9. Premises

The Company's principal establishments (all of which are leasehold and are used for offices, in the case of Technology Building and location of the Company's servers, in the case of Internet House) are as follows:

<i>Property</i>	<i>Tenure</i>	<i>Lease expiry date</i>	<i>Annual rent</i>	<i>Approx. area</i>
Part Ground Floor, Technology Building, Insight Campus, Terry Street, Sheffield S9 2BU	Leasehold	The date falling two years from Admission but subject to a 3 month break clause exercisable any time after 15 months from Admission	£139,164 for the first twelve months after Admission £158,140 for the second twelve months after Admission	12,000 square feet

<i>Property</i>	<i>Tenure</i>	<i>Lease expiry date</i>	<i>Annual rent</i>	<i>Approx. area</i>
Internet House, Unit 4, Furnival Court, Victoria Quays, Sheffield, S4 7LA	Leasehold	5 November 2022	£76,338	6,100 square feet

The landlord of Technology Building is Pulse Building Limited, a subsidiary of Insight.

## 10. Working capital

In the opinion of the Directors, having made due and careful enquiry, the working capital available to the Group will, from the date of Admission, be sufficient for its present requirements, that is for at least the next twelve months from the date of Admission.

## 11. Litigation

No legal or arbitration proceedings are active, pending or threatened against, or being brought by, any member of the Group which are having or may have or have had during the 12 months preceding the date of this document a significant effect on the Company's or the Group's financial position.

## 12. General

- (a) Save as referred to elsewhere in this document, there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business. PlusNet does not own the rights to the trademark of the name "PlusNet", such rights being the subject of European Community and UK trademark registrations that are held by a third party. In the opinion of the Directors, any successful challenge to the Company's past and continued use of the name "PlusNet" would not have a materially adverse effect on the Company's business, financial position or prospects.
- (b) The expenses of or incidental to the Placing, which are payable by the Company, are estimated to be approximately £1.8 million (excluding VAT). The estimated net cash proceeds of the Placing for the Company are £0.4 million. Assuming full subscription, the expenses of the Placing (including commissions) are estimated to be £1.8 million (excluding VAT).
- (c) The minimum amount which, in the opinion of the Directors, must be raised under the Placing for the purposes mentioned in paragraph 21 of the POS Regulations is £1.8 million, which will be applied as to any preliminary expenses payable by the Company and any commission so payable to any person in consideration of his agreeing to subscribe for, or of his procuring or agreeing to procure subscriptions for, any Ordinary Shares.
- (d) There has been no significant change in the trading or financial position of PlusNet or the Group since 31 December 2003, the date to which the last audited accounts of PlusNet were drawn up.
- (e) Save as disclosed in this document, no person (other than professional advisers named in this document and trade suppliers) has received, directly or indirectly, from the Company within the 12 months preceding the application for admission to trading on AIM, or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission fees totalling £10,000 or more, or securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price, or any other benefit with the value of £10,000 or more at the date of Admission.
- (f) Save as disclosed in this document, there has been no material change in the financial or trading position of the Company since 31 December 2003 the date to which its most recent audited accounts have been drawn up and there are no significant investments in progress by the Company.
- (g) The financial information set out in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act. Statutory accounts have been delivered to the registrar of companies for the periods ended 31 December 2003, 2002 and 2001. Auditors' reports in respect of each statutory accounts have been made under section 235 of the Act and each such report was an unqualified report and did not contain any statement under section 237(2) or (3) of the Companies Act.

- (h) In accordance with paragraph 45(1)(b)(iii) of Schedule 1 to the POS Regulations, KPMG LLP have given and have not withdrawn their written consent to the inclusion of their report in Part IV of this document and the references thereto and to their name in the form and context in which they are included.
- (i) Baird has given and not withdrawn its written consent to the issue of this document with the references to it in the form and context in which such references are included.
- (j) All monies received from applicants will be held by Baird prior to delivery of the shares. Definitive share certificates (where appropriate) for the Placing Shares are expected to be despatched to placees by 21 July 2004 and CREST member accounts are expected to be credited by 14 July 2004.

### **13. Availability of documents**

Copies of this document will be available free of charge to the public at the registered office of Baird, Mint House, 77 Mansell Street, London E1 8AF during normal business hours on any weekday (Saturdays and public holidays excepted) for a period of one month from the date of Admission.

Dated: 8 July 2004