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CONTENTS

CHAIRMAN'S STATEMENT

The past year has been an exceptional year for Affinity and has exceeded all the Board's expectations. The Group has experienced explosive growth in turnover, clients, subscriber numbers and employees to name but a few, and intends to continue pushing the boundaries in the 21st Century.

EMERGING TECHNOLOGIES

Chief Executive Officer, Wayne Lochner is enthusiastic about the coming year and the new developments that it will inevitably bring:

*"At the beginning of 2000, Affinity and **Vodafone** announced their intention to work together, whereby Affinity would develop the gateway for English language content to the Vodafone global wireless portal. The Directors believe that the Vodafone relationship will prove to be a milestone in Affinity's progress in delivering its total vision to its clients. The Directors believe that broadband access to the Internet will have a significant impact on society and that the increasing penetration of mobile telephones and their omnipresence will mean that wireless access is a crucial part of this process."*

The full extent of the Vodafone relationship is still being specified as the rapid development of the **WAP** market phenomenon is growing even faster than the development we have seen for the fixed line Web. We are forming a strategic alliance with the world's largest mobile operator while technology is in its infancy, and in this way we will shape its evolution and ensure that Affinity plays a significant role in that future.

The Affinity Directors can see how the developing technology has the essential synergy with our key products at the moment, and that e commerce and entertainment, including games, broadcast direct to the mobile phone will be available in the very short term.

In addition Affinity and ICL will work jointly with Vodafone to develop a strategy to provide WAP based services to customers of all parties.

The potential of this relationship promises to be defining in terms of Affinity's future profile.

Over the last 12 months Affinity Internet Holdings ("Affinity") has achieved significant strategic developments in its business and experienced such diverse changes within the industry that the Board felt its first full annual report for the year 1999 should contain a brief synopsis of the history of the company, from conception to current day activities. The following summary will briefly outline events prior to 1999, including a full operational report for 1999, achievements for the year 2000 so far and finally we will share our future strategy aimed at continuing to keep us at the forefront of our industry.

Chairman's Statement (continued)

LAYING THE FOUNDATIONS OF AFFINITY

The concept of branded Internet access began to take shape in late 1996, a time when the Internet was just beginning to appear in our daily lives. At this time the Internet was a specialist area, and those operating in the sector were looking for ways to open the technology up to a much wider audience. Our vision was to harness the comfort and credibility attached to existing brand names as the way to achieve this distribution, and allow those brand owners to communicate more effectively with their customers, exploiting the elasticity inherent in the brand name to sell additional services.

The support of our vision by our early strategic partners **ICL**, the IT services company, **Cisco Systems** and **ClientLogic**, was critical to the launch of the business. During the following eighteen months we carefully constructed the Company's technology and marketing strategy, which lead to the official launch of the business in 1998. From this date forward, Affinity has advanced from strength to strength.

As the Company has progressed we have forged strategic relationships and collaborations with such companies as **Colt Telecommunications, Cable & Wireless Communications, Vodafone, PowerGen** and **Unisys.**

THE E-BUSINESS SOLUTIONS INNOVATOR IN 1999

Over the last 12 months our business has changed shape dramatically. The Company has evolved from the sole creation of virtual ISPs, to offering an integrated telephony service, e-commerce products, advertising, the development of mobile WAP functionality, the development of convergent billing services, SME packages and online entertainment services, thereby enabling Affinity to deliver its total vision and maximise revenue earning opportunities.

The Board believes that Affinity is now well positioned to offer a total package of business-to-business solutions, thereby becoming a leading e-business solutions innovator.

VIP

Virtual Internet Provider

BRANDED INTERNET SERVICES

Affinity's wholly owned subsidiary Virtual Internet Provider Ltd. (VIP), has enjoyed enormous growth, moving from 13 clients at the beginning of 1999 to achieving over 118 brand launches at the end of the year, which included **Tiny Computers, PowerGen, Prudential's Internet bank Egg,** the **Royal Bank of Scotland, Arsenal FC, Reed Business Information** and **Breathe.com.** The Directors believe that no other company currently offers the depth of branded Internet services, content services and embedded network services provided by Affinity. Cisco Systems recognised our achievements by awarding us with Cisco Powered Network™ (CPN) partner status. This accolade positions Affinity amongst the top 1% of service providers in the world.

The Directors have always believed that content and customer applications are the key to creating 'sticky' sites. Throughout the year, content deals such as **Segasoft's HEAT.net, Sportingbet.com, Desktop Lawyer, Masterclass, MediaRing for voice over IP, TDL Infospace, healthcare information, sporting content, educational content, shopping malls,** and **Shop-in-a-Box** have been agreed. These additional services provide the clients with the ability to create robust feature-rich sites, which serve to maintain the customer's interest and provide them with useful Internet based services.

In May 1999, VIP supported the live Internet broadcast by Paul Oakenfold, from the nightclub Cream, in Liverpool. This event was viewed simultaneously by a record-breaking number of people around the world, and with the forthcoming introduction to ADSL, video-on-demand is becoming a closer reality.

myTAXI

E-COMMERCE

Having worked closely with **Taxi Interactive Ltd** during 1999, the Board recognised the need to consolidate its e-commerce strategy. At the end of 1999, the purchase of Taxi Interactive Ltd from Chrysalis and other shareholders for a consideration of £12 million was agreed (with completion occurring in January 2000). The deal substantially strengthens the Group's e-commerce offering and is generating additional revenues.

myTAXI already has a number of European contracts in place, including preloaded shopping software on **Compaq** Presario PCs, but to date this position has not been exploited. Although initial revenues are modest, the Group intends to exploit more fully the value from the product through maximising myTAXI's Internet and mobile accessibility and strongly supporting its branding proposition.

myTAXI also manages a number of other e-commerce products, which includes Magex, e-charge and Encryption.

According to IDC/OECD the global market for Internet commerce will be $1,300 billion by 2003, which is the approximate Gross Domestic Product in the UK.

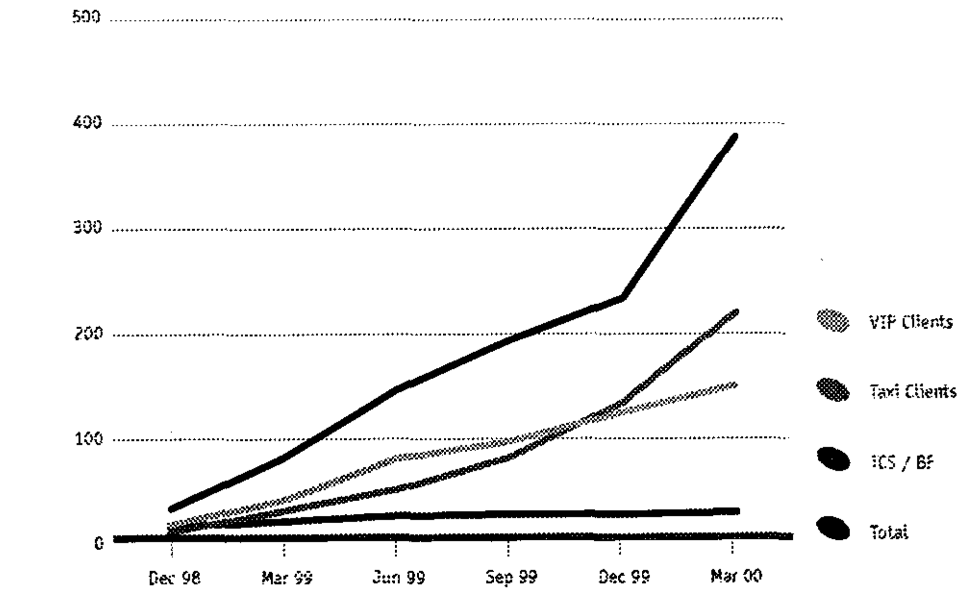
INCUBATOR

As the industry rapidly advances, an essential part of our strategy is to foster new ways of harnessing the power of the Internet, and to assist entrepreneurial teams realise their growth objectives. In December the first of our investments was initiated. In return for a stake of up to 20%, Affinity is providing the infrastructure support for **erecruitments.com**, a business to business Internet-based recruitment service, to commence operations. The Directors believe that this new service is set to revolutionise the UK's £3.8 billion* IT recruitment industry, by removing the agency middleman. The service will launch in the UK in the near future and intends to expand globally.

It is strategic investments such as these that will help to keep our company at the forefront of technology. The Company is securing separate office space that will be used to accommodate selected individual companies, enabling internal management. The Directors will continue to search for appropriate investment opportunities that will strategically add value to the Group's basic service offering.

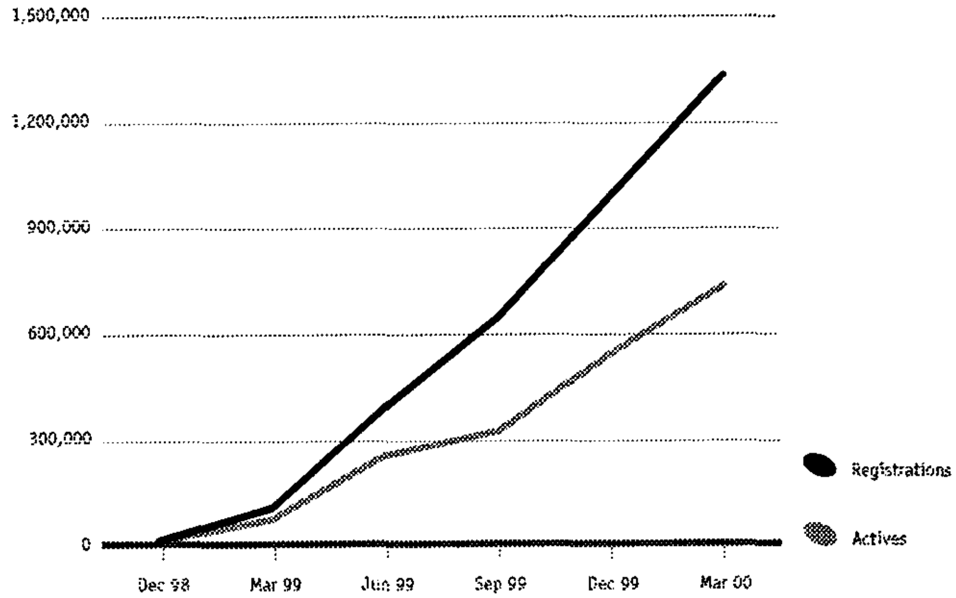
***According to the Professional Recruiter Magazine, there are over 4800 traditional recruitment agencies here in the UK and over £3.8 billion is spent solely on IT recruitment services each year.**

GROWTH IN CLIENT AGREEMENTS



Taxi figures included for comparison purposes, but acquired 6 Jan 2000

AFFINITY USERS



Taxi figures included for comparison purposes, but acquired 6 Jan 2000

The first quarter of 2000 has seen Affinity increase its reach with further expansion of its channels to market.

TRANS NATIONAL

To help drive our e-commerce business, it is essential for us to understand our customers. In response to this, Affinity has reached agreement to create **'TransAffinity'**, a joint venture with Trans National, a specialist in CRM skills, who take a professional marketing approach to extracting the most value from subscriber bases. Both companies have agreed to invest up to £2.5 million each in initial funding.

Trans National not only brings marketing expertise, but will also be rolling out the Affinity products to its large database of existing clients' customers. Trans National currently serves institutions like charities, unions and universities with a combined membership base of 22.3 million UK consumers.

The Directors believe that the combination of Trans National's established direct marketing skills working together with Affinity will be a powerful offering to communities, organisations and institutions seeking to promote themselves to their members and supporters. Trans National is another route to market for Affinity, and will enable the Company to generate revenue through e-commerce, advertising, and sponsorship opportunities.

INTERNATIONAL EXPANSION

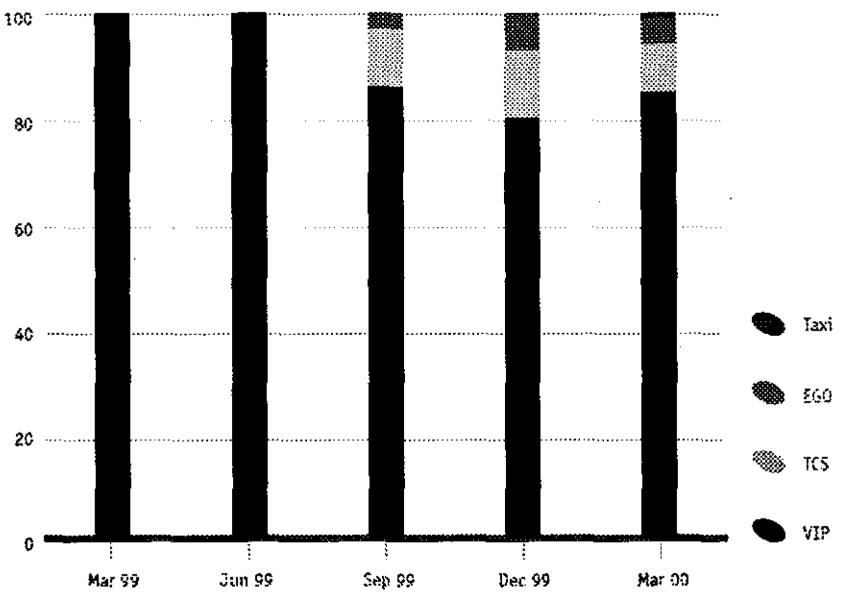
September 1999 saw Affinity embark on its international expansion programme with the launch of our VIP operations in Holland, shortly followed by Ireland. Affinity carefully selected a number of key strategic players to ensure the delivery of our e-business solutions service on a global scale. These international relationships include:

- ICL, the IT services company for the virtual Internet access platform
- Cisco Systems, for the IP infrastructure
- ClientLogic, for client support services
- Vodafone, for mobile (WAP) capability
- Trans National, for branded financial services and CRM expertise
- Unisys, for the convergent billing platform

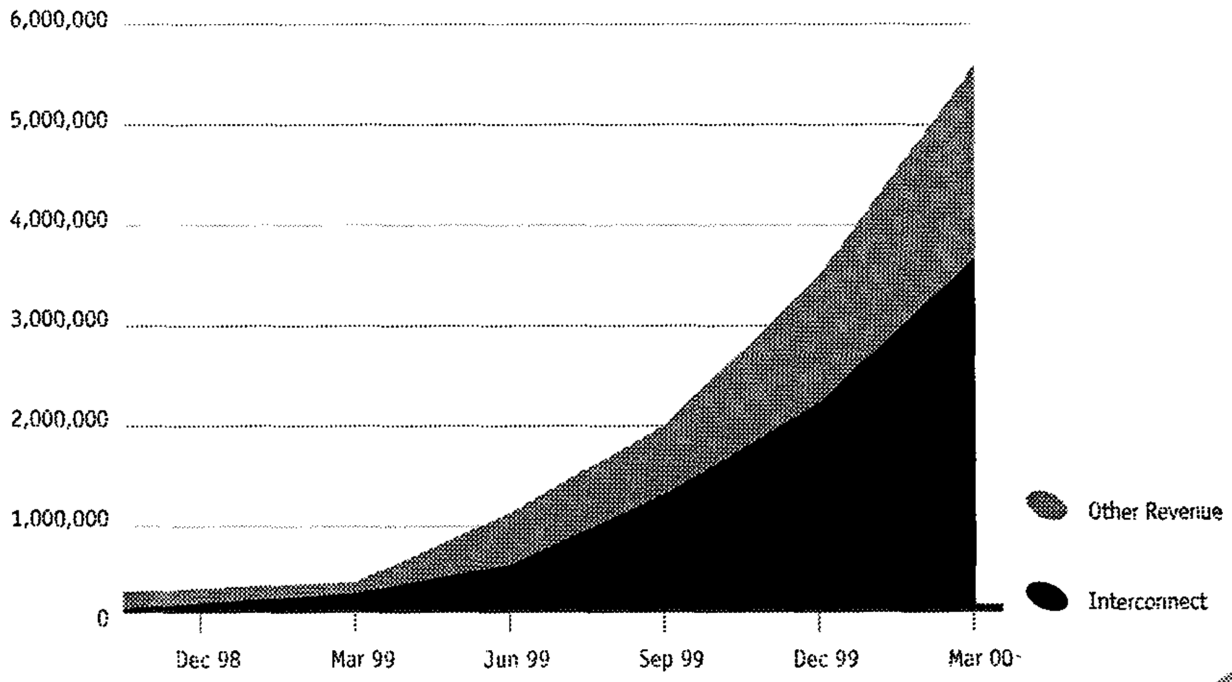
The expansion will continue this year with operations expected to be live in Australia, Sweden, Finland, Denmark, Norway and South Africa before the end of September 2000.

Free access is becoming more commonplace in Europe and the rest of the world, but the Directors are not aware of any significant competitors involved in branded services. The Directors are extremely optimistic for the level of take-up in Europe, and have received favourable reactions in all countries where pre-marketing analysis has been undertaken.

PERCENTAGE MIX OF REVENUE BY COMPANY



CUMULATIVE REVENUES



EXECUTIVE DIRECTORS

Terry Plummer Chairman

Terry Plummer (49) was co-founder of Virtual Internet Provider Limited in association with Wayne Lochner. Terry was previously the Chief Executive of Hobson plc prior to its acquisition by Hillsdown Holdings plc, and has for some years been running his own export Company specialising in re-selling branded merchandise.

Wayne Lochner CEO

Wayne Lochner (43) co-founded Virtual Internet Provider Limited in association with Terry Plummer, having identified the potential of the Internet and the role that brands would play in the development in the UK. Wayne was previously based in the far east with M W Marshall & Co money brokers, and most recently as Chief Executive (Asia Pacific & Middle East) of MAI plc.

Robert Southward Technical Director

Bob Southward (53) was appointed technical director of VIP in January 1999 and continues in that role for Affinity. Bob has spent all of his career within the Information Technology sector, most notably with Bowater plc and Caradon Everest Limited.

Allan Redfern Business Development Director

Allan Redfern (54) has worked in the Information Technology sector since 1972, reaching Head of Internal Systems Worldwide for ICL, before taking Managing Director roles in four UK based software design companies. *Allan joined the VIP Board in 1999 to act as ICL liaison.*

Stuart Barker ACA Finance Director

Stuart Barker (33) qualified with the ICAEW in 1990, and spent 12 years working in practice until he joined VIP as financial controller in July 1998. Stuart was appointed to the Affinity Board in April 1999.

NON EXECUTIVE DIRECTORS

Peter Howard Dobson

Peter Howard Dobson (47) was appointed as a non-executive Director in September 1999. Peter has spent over 20 years in the telecommunications industry rising to Deputy Managing Director of One 2 One. Peter holds a number of roles on behalf of the Board, particularly as Chairman of the Audit Committee.

June May

June May (47) was appointed as a non-executive Director in December 1999. June has spent her career working within the Information Technology sector, and was previously Vice President of Novell Technical Services. June is currently Managing Director of The Database (Nottingham) Ltd. June holds a number of roles on behalf of the Board, particularly as Chair of the Remuneration Committee.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Group's policy in respect of its suppliers is to agree the terms of payment when first contracting with each supplier and aims to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow a code on payment practice. The amount of trade creditors shown in the balance sheet at 31 December 1999 represents 64 days of average purchases for the Group. There are no trade creditors in the Company and as a result no creditor days outstanding in respect of the Company.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the period were as follows:

Terence Plummer - appointed 23 February 1999

Wayne Lochner - appointed 23 February 1999

Robert Southward - appointed 9 April 1999

Allan Redfern - appointed 26 March 1999

Stuart Barker - appointed 26 March 1999

Peter Howard-Dobson - appointed 6 September 1999

June May - appointed 1 December 1999

The directors' interests are disclosed in note 5.

YEAR 2000

The Company, in common with most enterprises, is reliant not only on its own systems, but those of its suppliers, utilities and many other commercial and other organisations. The Company took all reasonable steps to ensure that its own systems were Year 2000 compliant, and made representations to suppliers and other organisations, which did not give rise to any material issues. The Company did not experience any adverse effects at the turn of the year.

The Company continues to monitor systems for potential Y2K or other date specific problems, but has not suffered or identified any adverse conditions to date.

INTRODUCTION OF THE EURO

The Group's activities during 1999 were primarily in the UK, but since the turn of the year more operations are being carried on within the Eurozone. The initial impact of the Euro has been minimal, with the Group having instituted accounting software that is Euro capable, and has the capability to receive and make payments in Euros. Any new developments are being monitored to ensure that they have multiple currency capability including Euros, which particularly includes the development of the Group's convergent billing platform.

EMPLOYEES

The Company is an equal opportunities employer, and considers applications from and attempts to hire disabled persons for positions within the scope of their abilities. Should employees become disabled during their employment, the Group would seek wherever possible to retain or if necessary retrain.

CORPORATE GOVERNANCE

COMPLIANCE WITH THE COMBINED CODE

In June 1998, the Hampel Committee and London Stock Exchange published the Combined Code on corporate governance ('the code'), combining the Cadbury Code on corporate governance, the Greenbury Code on Directors' remuneration and new requirements arising from the findings of the Hampel Committee.

As a Company listed on AIM, the Company is not required to comply with the Combined Code, but is attempting *to comply with the spirit of the code wherever possible. An explanation of how the Company has attempted to* apply the principles is set out below.

Board of Directors

The Board consists of five Executive Directors and two Non-executive Directors. Both of the Non-executive Directors are considered to be independent, and the Company is currently looking to add further independent Non-Executives.

The full Board meets monthly, chaired by Terence Plummer with Wayne Lochner as Chief Executive Officer, and has adopted a schedule of matters for discussion designed to maintain control over appropriate strategic, financial, operational and compliance issues. The full Board also holds responsibility for identifying and addressing significant risks to the business of the Group, which are then delegated to working parties made up of Board members and senior management. Directors receive an information pack containing background papers to familiarise themselves in advance of the meeting on all the agenda items.

Board Committees

The Audit Committee comprises both Non-Executive Directors and the Chief Executive Officer, chaired by Peter Howard-Dobson. The Committee is scheduled to meet at least four times per annum, with the Finance Director and external Auditors regularly attending these meetings. It is responsible for reviewing accounting policies, controls and the financial information contained in the Annual and Interim Reports. It provides the opportunity for the Non-Executive Directors to make independent contributions to financial matters.

The Remuneration Committee comprises of both Non-Executive Directors, June May and Peter Howard-Dobson, with two Executive Directors, Terence Plummer and Robert Southward. The committee is chaired by June May. The Committee is scheduled to meet at least four times per annum. It sets the remuneration of the Executive Directors and senior management, and also will consider grants and conditions for the Company's forthcoming share option schemes. The Remuneration Committee is set to meet on 10th April 2000 to establish policies for the remuneration of Executive Directors. The Executive Directors will not be present during the discussion of their own pay arrangements.

The Company does not yet have a **Nominations Committee**. This will be created in the near future.

Relations with shareholders

The Company's Chairman, Chief Executive and Finance Director met with institutional shareholders, fund managers and analysts following the publication of the Interim figures, and will do the same following the publication of the full year figures, as part of an investor relations programme to discuss issues and obtain feedback. Private Investors are encouraged to participate in the running of the Company through the Company's General Meetings.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1999

	Note	1999 £000	1998 £000
Turnover	2	**3,424**	167
Cost of sales		**(7,126)**	(485)
Gross loss		**(3,702)**	(318)
Administrative expenses - including exceptional costs of £3,113,000 (1998: £nil)	3	**(5,445)**	(596)
Group operating loss	2,4	**(9,147)**	(914)
Interest receivable and similar income	7	**14**	-
Interest payable and similar charges	8	**(39)**	(8)
Loss for the financial year		**(9,172)**	(922)
Loss and fully diluted loss per ordinary share	11	**(66.32p)**	**(6.45p)**

All activities relate to continuing operations and the total figures for 1999 include the following amounts relating to acquisitions: turnover - £71,000, cost of sales - £50,000, and net operating expenses - £22,000.

All profits and losses have been accounted for on a historical cost basis. There are no recognised gains and losses other than those reflected in the profit and loss account for the period.

COMPANY BALANCE SHEET

at 31 December 1999

	Note	1999 £000	1999 £000
Fixed assets			
Investments	*14*		1,467
Current assets			
Debtors	*16*	22,254	
Investments	*17*	400	
Cash at bank and in hand		1,460	
		24,114	
Creditors: amounts falling due within one year	*18*	(444)	
Net current assets			23,670
Net assets			25,137
Capital and reserves			
Called up share capital	*21*		2,135
Share premium account	*22*		23,079
Profit and loss account	*22*		(77)
Equity shareholders' funds			25,137

These financial statements were approved by the Board of Directors on 7 April 2000 and were signed on its behalf by:

T Plummer
Chairman

W Lochner
CEO

RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 1999

	Group		Company
	1999	1998	**1999**
	£000	£000	**£000**
Loss for the financial year	**(9,172)**	(922)	**(3,190)**
New share capital subscribed (net of issue costs)	**23,846**	103	**25,214**
Compensation charge for shares issued to employees	**3,113**	-	**3,113**
Net addition to /(reduction in) shareholders' funds	**17,787**	(819)	**25,137**
Opening shareholders' deficit	**(819)**	-	-
Closing shareholders' funds/(deficit)	**16,968**	(819)	**25,137**

Fixed asset investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment in value.

Stock

Stocks are stated at the lower of cost and net realisable value. In determining the cost of goods purchased for resale, the weighted average purchase price is used.

Tangible fixed assets and depreciation

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

Short Leasehold Property	straight line over the period of the lease
Office Equipment	15 % per annum reducing balance
Computer Equipment and Software	3 years straight line
Motor Vehicles	25% per annum reducing balance

Payments on account and assets in course of construction are stated at costs incurred to date.

Current asset investments

Investments, stated at cost, are classified as current assets where it is anticipated that the Group will dispose of the investments by the end of the following accounting period.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers in the United Kingdom.

4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999 £000	1998 £000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration:		
- Audit	60	3
- Other services	95	18
Depreciation and other amounts written off tangible and intangible fixed assets:		
- Owned	75	7
- Leased	90	18
Amortisation of goodwill	8	-
Hire of plant and machinery - rentals payable under operating leases	404	42
Hire of other assets - rentals payable under operating leases	64	11

Fees paid to the auditor and its associates in respect of other services related to the equity placing and are set off against the share premium account.

The audit fee in respect of the Company was £5,000.

5 REMUNERATION OF DIRECTORS

Directors Remuneration

	Salary £	Benefits £	Other £	1999 Total £	1998 Total £
Executive Directors:					
Terence Plummer	75,111	14,455	-	89,566	46,739
Wayne Lochner	111,178	9,226	3,040	123,444	73,643
Robert Southward	57,500	8,793	-	66,293	-
Allan Redfern	48,750	8,257	-	57,007	-
Stuart Barker	37,083	3,586	-	40,669	-
	329,622	44,317	3,040	376,979	120,382
Non-executive Directors:					
Peter Howard-Dodson	5,295	-	62,250	67,545	-
June May	-	-	-	-	-
	5,295	-	62,250	67,545	-
	334,917	44,317	65,290	444,524	120,382

6 STAFF NUMBERS AND COSTS

The average number of persons employed by the group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	1999	1998
Management	**5**	2
Administration	**36**	5
	41	7

The aggregate payroll costs of these persons were as follows:

	1999	1998
	£000	£000
Wages and salaries	**1,222**	226
Social security costs	**107**	21
Share compensation	**3,113**	-
	4,442	247

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	1999	1998
	£000	£000
Interest receivable on short term deposits	**14**	-

8 INTEREST PAYABLE AND SIMILAR CHARGES

	1999	1998
	£000	£000
On bank loans and overdrafts	**26**	6
Finance charges payable in respect of finance leases	**13**	2
	39	8

13 TANGIBLE FIXED ASSETS

	Short Leasehold Property	Computer Equipment and software	Office Equipment	Motor Vehicles	Payments on account and assets in course of construction	Total
	£000	£000	£000	£000	£000	£000
Group						
Cost						
At beginning of year	-	12	11	77	-	100
Additions	6	115	107	263	1,600	2,091
On acquisitions	-	24	-	-	-	24
At end of year	6	151	118	340	1,600	2,215
Depreciation						
At beginning of year	-	4	2	19	-	25
Charge for year	2	55	28	80	-	165
At end of year	2	59	30	99	-	190
Net book value						
At 31/12/99	**4**	**92**	**88**	**241**	**1,600**	**2,025**
At 31/12/98	-	8	9	58	-	75

Included in the total net book value of £2,025,000 is £265,609 *(1998 :£52,996)* in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £89,555 *(1998 :£17,665)*.

15 STOCKS

	Group 1999 £000	Group 1998 £000	Company 1999 £000
Goods for resale	33	-	-

16 DEBTORS

	Group 1999 £000	Group 1998 £000	Company 1999 £000
Trade debtors	806	18	-
Amounts owed by group undertakings	-	-	20,512
Other debtors	595	43	-
Placing proceeds receivable	1,733	-	1,733
Called up share capital not paid	9	-	9
Prepayments and accrued income	196	11	-
	3,339	72	22,254

All debtors held by the Group and Company are due within one year except amounts owed by Group undertakings which have no fixed date for repayment.

17 INVESTMENTS (HELD AS CURRENT ASSETS)

	Group 1999 £000	Group 1998 £000	Company 1999 £000
Other investments	400	-	400

The Company acquired ten percent of the ordinary share capital of Erecruitments Limited. In a separate put call arrangement, the Company has the option to acquire an additional ten percent and the majority shareholders have a call option to trigger the purchase of an additional ten percent.

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

The maturity of obligations under finance leases is as follows:

	Group		Company
	1999	1998	**1999**
	£000	£000	**£000**
Within one year	**115**	20	-
In the second to fifth years	**236**	53	-
Over five years	-	-	-
	351	73	-
Less future finance charges	**(73)**	(16)	-
	278	57	-

20 ACQUISITIONS

On 1 July, the Company acquired 100% of the Ordinary shares of Brightfibre Communications plc for 24,390 shares at a price of £2.05 per share. The resulting goodwill was capitalised and will be written off over 3 years. The following sets out the book value of the identifiable assets and liabilities and their fair value to the Group.

	Book and Fair value £000
Tangible fixed assets	24
Current assets	
Debtors	26
Cash	9
Total assets	59
Total liabilities - creditors	(58)
Net assets acquired	1
Goodwill	49
Purchase consideration - satisfied by shares allotted	50

The acquired undertaking made a loss of £49,000 from the beginning of its financial year to the date of acquisition and did not trade in the prior year.

22 SHARE PREMIUM AND RESERVES

Group	Capital reserve £000	Share premium account £000	Profit and loss account £000
At beginning of year	(1,265)	-	(922)
Loss for the year	-	-	(9,172)
Premium on share issues, less expenses	-	23,079	-
Compensation charge for shares issued to employees	-	-	3,113
At end of year	(1,265)	23,079	(6,981)

Company	Share premium account £000	Profit and loss account £000
At beginning of year	-	-
Loss for the year	-	(3,190)
Premium on share issues, less expenses	23,079	-
Compensation charge for shares issued to employees	-	3,113
At end of year	23,079	(77)

25 ANALYSIS OF CASH FLOWS

	Notes	1999 £000	1998 £000
Returns on investment and servicing of finance			
Interest received		14	–
Interest paid		(26)	(6)
Interest element of finance lease rental payments		(13)	(2)
		(25)	(8)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,091)	(100)
Acquisitions and disposals			
Net cash acquired with subsidiary	20	9	–
Financing			
Issue of ordinary share capital		25,177	103
Costs relating to share issue		(1,381)	–
Finance leases issued during the year		263	74
Capital element of finance lease rental payments		(42)	(17)
		24,017	160

The subsidiary undertaking acquired during the year contributed £28,000 to the Group's net operating cash flows.
An analysis of the net assets acquired and how satisfied is shown in note 20.

As part of the corporate reconstruction, on 9 April 1999, the Company acquired the entire issued share capital of Virtual Internet Provider Limited in consideration of the issue of ordinary shares.

On 17 November 1999, the Company acquired an investment for deferred consideration of £400,000 to be settled through the provision of services and cash.

28 POST BALANCE SHEET EVENTS

On 6th January 2000, the Company completed the acquisition of Taxi Interactive Limited, together with its operating subsidiary myTaxi Limited. The consideration of £11,983,576 is made up of an initial issue of 353,741 ordinary shares of 10 pence each, with a further maximum of £5,969,956 to be settled by the issue of additional 10 pence shares on the first anniversary of completion.

On 28th January 2000, the Company announced a preliminary agreement with Vodafone Limited, for the Company's subsidiary Virtual Internet Provider Limited, to supply fixed line and mobile WAP services. The conclusion of the contractual terms of this agreement is continuing.

On 3rd February 2000, the Company concluded the contractual negotiations for its agreement with Oneview.net plc. The Joint Venture Company has commenced trading, focusing on a combined offering of services to SMEs. The subsequent take-over of Oneview.net plc by Freecom.net plc has not brought any change in the position of the joint venture, indeed the Board believes that the opportunities for the joint venture were enhanced as a result of the enlarged entity.

On 14th February 2000, the Company announced a joint venture agreement with Trans National Group Services International Inc, with the intention of providing a combined service primarily to non-profit seeking or charitable organisations. The parties have indicated a commitment of £2.5 million each to the project.

On 21st February 2000, the Company announced that it had entered into a joint venture with Powergen plc, effected by the disposal of 50% of its previously wholly owned subsidiary TeleCentric Solutions Limited. The Company received consideration of £10 million, £5 million on completion with a further £5 million contingent on the future performance of TeleCentric Solutions Limited.

On 29th February 2000, the Company began the process of incorporating VIP Benelux BV.

On 29th March 2000, the Company held an EGM at which shareholder approval was given for the implementation of an Approved Share Option Scheme, an Unapproved Share Option Scheme, and for the Company to proceed with an application for a full listing on the London Stock Exchange under TechMark.

29 RELATED PARTY DISCLOSURES

The Company is controlled by Terry Plummer and Wayne Lochner, the Chairman and CEO respectively.

During the year the Group acquired a car from Bannacount Exports Limited, a subsidiary company of Plumloch Investments (UK) Limited, which is also controlled by Terry Plummer and Wayne Lochner. The vehicle was acquired at its open market value of £17,000, and the Group assumed the outstanding liability of £13,056 leaving an outstanding balance of £3,944. This amount remained outstanding at the year-end.

The Group is also charged quarterly by Bannacount Exports Limited for the hire of a photocopier, at the rate of £342 per quarter.

The Group owes £948 to Plumloch Investments (UK) Limited in connection with minor expenses incurred on the Group's behalf.

The Group paid £9,105 for accountancy services to Masons, Chartered Accountants during the year, primarily in connection with the services of Stuart Barker prior to his appointment to the Board in March 1999, but additionally for continuing payroll services. The brother of Stuart Barker is a partner in the firm Masons.

In February 1999, the Group paid £1,000 to Re-engineering Maintenance Conversions Limited, a Company of which Allan Redfern was previously a Director, for the hire of a car.

NOTES (CONTINUED)

26 ANALYSIS OF NET DEBT

	At beginning of year £000	Cash Flow £000	Other non cash changes £000	At end of year £000
Cash in hand, at bank	7	14,956	-	14,963
Overdrafts	(287)	287	-	-
	(280)	15,243	-	14,963
Finance leases	(57)	42	(263)	(278)
Total	**(337)**	**15,285**	**(263)**	**14,685**

27 FINANCIAL INSTRUMENTS

The Group's borrowings, liquidity, interest rate and foreign exchange rate exposures are managed at group level. The following policies have been applied during the year to manage the financial risks faced by the Group with regard to funding and liquidity and interest rate exposure:

- *Liquidity risk:* The Group's overall objective is to ensure that it is at all times able to meet its financial commitments as and when they fall due. The Group prepares periodic working capital forecasts.
- *Interest rate risk:* The Group finances its operations through a mixture of share issue proceeds and bank borrowings. Due to the successful share issues during the year, the Group had no bank borrowings at the year end. They do have an agreed revolving credit facility which accrues interest at 3% above base rate. The Group has also entered into finance lease contracts, which carry different rates of interest.

The Group does not have any significant foreign exchange or financial assets exposure. Cash at bank and in hand, current asset investments and finance leases are the financial instruments and their fair value approximates the *book value at 31 December 1999.*

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures.

NOTES (CONTINUED)

23 COMMITMENTS AND CONTINGENT LIABILITIES

(a) At the end of the financial year the Group had entered into commitments amounting to £61,191 *(1998:£nil)* in respect of finance leases and similar hire purchase contracts, the inception of which occurs after the year end.

(b) Capital commitments of the Group at the end of the period for which no provision has been made was £396,000 *(1998: £nil)*.

(c) In October 1999, the Group acquired the business known as GamesZone for contingent consideration of 50 percent of the earnings before interest and tax of the business over a two year period to 31 March 2001 *up to a maximum of £250,000.*

(d) The Company has agreed to provide further funding to certain subsidiaries within the normal course of business.

(e) The Company and certain subsidiaries have guaranteed the revolving credit facility.

(f) The Company has no annual commitments under operating leases. Annual commitments under the Group's non-cancellable operating leases are as follows:

	1999		1998	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
Within one year	**-**	**62**	13	-
In the second to fifth years inclusive	**126**	**840**	-	167
Over five years	**-**	**-**	-	-
	126	**902**	13	167

24 RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	1999	1998
	£000	£000
Operating loss	**(9147)**	(914)
Depreciation and amortisation	**173**	25
Exceptional item - share compensation	**3,113**	-
Increase in stocks	**(33)**	-
Increase in debtors	**(3,241)**	(72)
Increase in creditors	**2,468**	629
Net cash outflow from operating activities	**(6,667)**	(332)

NOTES (CONTINUED)

21 CALLED UP SHARE CAPITAL

	1999 £000	1998 £000
Authorised		
50,000,000 ordinary shares of 10 pence each	**5,000**	5,000
Allotted and called up		
91,075 ordinary shares of 10 pence each	**9**	-
Allotted, called up and fully paid		
21,263,091 ordinary shares of 10 pence each	**2,126**	1,368

The Company was incorporated with an authorised share capital of 100,000 ordinary shares of £1 each, of which 2 shares, paid up as to 25 pence each, were issued on incorporation, and a further 49,998 shares, paid up as to 25 pence each were issued on 26 March 1999. On 1 April 1999, the authorised share capital was increased to £5,000,000. On the same date the issued and unissued authorised share capital was subdivided into ordinary shares of 10 pence each. On 9 April 1999, the Company acquired the entire issued share capital of VIP, as part of the consideration issued 13,786,000 ordinary shares in the Company.

On 21 April 1999, the Company issued 3,929,000 shares at 70 pence per share as part of the admission of the issued ordinary shares to trading on the Alternative Investment Market of the London Stock Exchange.

On 17 September 1999, the Company issued 24,390 shares at £2.05 per share to acquire 100% of the shares of Brightfibre Communications plc.

On 6 October 1999, the Company issued 43,860 shares at £2.28 per share and 37,312 at 2.68 per share equally between LPS Investments Pty Ltd and Virtual Internet Provider Australia Pty Ltd (to rank pari passu with existing shares) for a consideration of £200,000.

On 22 November 1999, the Company issued 394,250 shares for total consideration of £1,531,774 to staff.

On 26 November 1999, the Company issued 1,785,188 shares at £11.50 per share through a private placement.

On 31 December 1999, Singer and Friedlander Limited exercised their option to purchase 854,166 at 10 pence each.

NOTES (CONTINUED)

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1999 £000	Group 1998 £000	Company 1999 £000
Bank loans and overdrafts	-	287	-
Obligations under finance leases (see note 19)	89	17	-
Trade creditors	2,607	265	-
Taxation and social security	154	51	-
Other creditors	453	101	400
Accruals and deferred income	341	104	44
Directors Loan Account	-	108	-
	3,644	933	444

The Company has a revolving credit facility of £750,000. The facility terminates on 31 October 2000 and interest is payable at 3.0% over the bank's Base rate. This is secured by a debenture over the fixed and current assets of the Company . On 24 February 2000, the facility was increased to £1,000,000.

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 1999 £000	Group 1998 £000	Company 1999 £000
Obligations under finance leases	189	40	-

Analysis of debt:

	Group 1999 £000	Group 1998 £000	Company 1999 £000
Debt can be analysed as falling due:			
In one year or less, or on demand	89	17	-
Between one and two years	83	17	-
Between two and five years	106	23	-
	278	57	-

NOTES (CONTINUED)

14 FIXED ASSET INVESTMENTS

	Share in group undertaking £000
Company	
Cost	
At beginning of year	-
Additions	1,467
At 31/12/99	1,467
At 31/12/98	-

On 9 April 1999, the Company acquired the entire issued share capital of Virtual Internet Provider Limited in consideration of the issue of 13,786,000 ordinary shares of 10 pence each. As part of the share for share exchange, the Company agreed to treat the amount unpaid (£37,500) on 500,000 ordinary shares already in issue as paid up in full through an adjustment to the number of shares issued in exchange.

On 17 September 1999, the Company issued 24,390 shares at £2.05 per share to acquire 100% of the shares of Brightfibre Communications plc.

The following companies were principal subsidiaries at 31 December 1999 and have been included within the consolidation:

	Country of incorporation	Principal activity	Group Holding	Class of share
Subsidiary undertakings				
Virtual Internet Provider Limited	England & Wales	Internet Services	100%	Ordinary
EGO Maniacs.net Limited	England & Wales	Internet Games	100%	Ordinary
Brightfibre Communications plc	England & Wales	Telecommunications	100%	Ordinary
TeleCentric Solutions Limited	England & Wales	Telecommunications	*100%	Ordinary

*** 50% disposed in February 2000**

NOTES (CONTINUED)

9 TAXATION

There is no current tax charge for the year as a result of the losses incurred during the year. The losses carried forward at 31 December 1999 are £6,728,000 *(1998: £888,000).*

The potential amount of unprovided deferred tax assets at the rate of 30% *(1998: 31%)* for decelerated capital allowances are £35,000 and for losses carried forward are £2,019,000 *(1998: £266,000).*

10 DIVIDENDS

The Directors do not recommend the payment of a dividend for the year.

11 LOSS PER EQUITY SHARE

The loss per equity share has been calculated on the basis of a loss of £9,172,000 *(1998: £922,000)* attributable to shareholders of Affinity Internet Holdings plc and 13,830,018 *(1998: 14,286,000)* ordinary shares being the weighted average number of ordinary shares in issue during the year ended 31 December 1999 in accordance with FRS 14. There is no difference between the weighted average shares used for the loss on a diluted basis. The weighted average shares outstanding in the prior year are the number outstanding immediately following the Group reconstruction.

12 INTANGIBLE FIXED ASSETS

	Goodwill £000
Cost	
At beginning of year	-
Additions	49
At end of year	49
Amortisation	
At beginning of year	-
Charged in year	8
At end of year	8
Net book value	
At 31 December 1999	**41**
At 31 December 1998	-

NOTES (CONTINUED)

Remuneration of Directors (continued)

Remuneration includes the amounts from Group undertakings prior to the Group reconstruction.

The 1998 remuneration of Terence Plummer was recharged to the Company through Plumloch Investments (UK) Limited, a related party.

The other compensation expense of Peter Howard-Dobson represents the issue of 8,300 ordinary shares on 22 November 1999 at £6 per share when the market value was £13.50 per share.

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

	Company	Ordinary Shares	Interest at end of year	Interest at start of year or date of appointment
Terence Plummer	Affinity		5,694,029	–
	VIP	'A'	–	325,000
	VIP	'B'	–	86,094
Wayne Lochner	Affinity		5,694,029	–
	VIP	'A'	–	325,000
	VIP	'B'	–	86,094
Robert Southward	Affinity		408,864	-
	VIP	'B'	–	29,335
Allan Redfern	Affinity		204,432	–
	VIP	'B'	–	14,667
Stuart Barker	Affinity		102,202	–
	VIP	'B'	–	7,333
Peter Howard-Dobson	Affinity		13,300	5,000
June May	Affinity		–	–

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of other Group Companies. According to the Register of Directors' Interests, no rights to subscribe for shares in or debentures of other Group Companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year.

NOTES (CONTINUED)

Accounting Policies (continued)

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

2 SEGMENTAL INFORMATION

The table below sets out information for each of the Group's industry segments.

	Internet Services		Telecommunications		Total	
	1999	1998	**1999**	1998	**1999**	1998
	£000	£000	**£000**	£000	**£000**	£000
Turnover	**3,130**	167	**294**	-	**3,424**	167
Pre-exceptional operating loss	**(5,471)**	(914)	**(482)**	-	**(5,953)**	(914)
Exceptional item (see note 3)	**(2,903)**	-	**(106)**	-	**(3,009)**	-
Segment operating loss	**(8,374)**	(914)	**(588)**	-	**(8,962)**	(914)
Corporate costs					**(81)**	-
Exceptional item (see note 3)					**(104)**	-
Group operating loss					**(9,147)**	(914)
Net assets/(liabilities)						
Segment net assets/(liabilities)	**14,243**	(819)	**(433)**	-	**13,810**	(819)
Corporate net assets					**3,158**	-
Total net assets/(liabilities)					**16,968**	(819)

Internet services represents the Group's internet service provider and on-line games activities and the management and infrastructure of that business segment. The telecommunications represents the Group's investment in residential and corporate communications.

3 EXCEPTIONAL ITEM

On 22 November 1999, the Directors approved the issue of new shares to staff and a non-Executive Director at a value below the prevailing market price in lieu of the implementation of the Group's share option schemes. In accordance with UITF 17 a charge of £3,113,000 has been recognised in the profit and loss account, reflecting the difference between the market value and the issue price to the employees. There is no related tax charge.

NOTES

(forming part of the financial statements)

1 ACCOUNTING POLICIES

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

Basis of preparation

The financial statements have been prepared under the historical cost accounting rules and in accordance with the applicable accounting standards other than Financial Reporting Standard No 6 'Acquisitions and Mergers' (FRS 6) as explained below.

The Affinity Internet Holdings Group was created by a group reconstruction where, on 9 April 1999, the whole of the issued share capital of Virtual Internet Provider Limited (VIP) was transferred to a newly formed holding company, Affinity Internet Holdings plc.

The acquisition of VIP was accounted for in accordance with the principles of merger accounting as set out in FRS 6 and schedule 4A to the Companies Act 1985. By adopting this accounting treatment the consolidated accounts of Affinity Internet Holdings Group for the year ended 31 December 1999 are presented as to show the results of the reconstructed group as though the reconstruction had occurred prior to 1 January 1999.

FRS 6 and the Companies Act set out certain conditions to be met in order that merger accounting can be adopted. Not all of these conditions have been met by the transfer of VIP's business to Affinity Internet Holdings plc; however, the Directors believe that it is appropriate to apply merger accounting. Had acquisition accounting been applied, only post acquisition results would have been reported and there would have been adjustments to fair values: the Directors do not believe this would have given a true and fair view of the results and state of affairs of the Group. It was not practicable to quantify the effect of the departure.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 1999. The merger method of accounting has been adopted for the Group reconstruction. Under this method, the results of the subsidiary undertaking acquired has been included in the consolidated figures as if the undertaking had always been a part of the Group. The comparatives cover the year ended 31 December 1998 and consists of Virtual Internet Provider Limited only. Acquisition accounting has been applied in respect of the other acquisition during the year. Under this method of accounting the results of the acquired Company have been included in the consolidated profit and loss account from the date of acquisition.

Under section 230(4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account. The amount of the loss for the financial year of the Company is disclosed in note 22 of these accounts' and was approved by the Directors on 7 April 2000.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation and business combinations in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, not exceeding 20 years.

The Directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. The following sets out the periods over which goodwill is amortised and the reasons for the periods chosen: Brightfibre Communications plc – 3 years straight line. The Directors believe that 3 years represents a realistic assessment of the useful economic life of the customer contracts acquired.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1999

	Note	1999 £000	1998 £000
Cash flow statement			
Cash flow from operating activities	24	(6,667)	(332)
Returns on investments and servicing of finance	25	(25)	(8)
Capital expenditure	25	(2,091)	(100)
Acquisitions and disposals	25	9	-
Cash outflow before financing		(8,774)	(440)
Financing	25	24,017	160
Increase/(decrease) in cash in the period		15,243	(280)
Reconciliation of net cash flow to movement in net funds/(debt)	26		
Increase/(decrease) in cash in the period		15,243	(280)
Cash inflow from increase in debt and lease financing		42	17
Change in net debt resulting from cash flows		15,285	(263)
New finance leases		(263)	(74)
Movement in net funds/(debt) in the period		15,022	(337)
Net debt at the start of the period		(337)	-
Net funds/(debt) at the end of the period		14,685	(337)

CONSOLIDATED BALANCE SHEET

at 31 December 1999

	Note	1999 £000	1999 £000	1998 £000	1998 £000
Fixed assets					
Intangible assets	*12*		41		-
Tangible assets	*13*		2,025		75
			2,066		75
Current assets					
Stocks	*15*	33		-	
Debtors	*16*	3,339		72	
Investments	*17*	400		-	
Cash at bank and in hand		14,963		7	
		18,735		79	
Creditors: amounts falling due within one year	*18*	(3,644)		(933)	
Net current assets/(liabilities)			15,091		(854)
Total assets less current liabilities			17,157		(779)
Creditors: amounts falling due after more than one year	*19*		(189)		(40)
Net assets/(liabilities)			16,968		(819)
Capital and reserves					
Called up share capital	*21*		2,135		-
Shares to be issued			-		1,368
Share premium account	*22*		23,079		-
Capital reserve	*22*		(1,265)		(1,265)
Profit and loss account	*22*		(6,981)		(922)
Equity shareholders' funds/(deficit)			16,968		(819)

These financial statements were approved by the Board of Directors on 7 April 2000 and were signed on its behalf by:

T Plummer
Chairman

W Lochner
CEO

REPORT OF THE AUDITORS TO THE MEMBERS OF AFFINITY INTERNET HOLDINGS PLC

We have audited the financial statements on pages 23 to 45.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 21 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom Law and accounting standards. Our responsibilities, as independent Auditors, are established in the United Kingdom by statue, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We read the other information contained in the Annual Report, including the corporate governance statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1999 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit plc
Chartered Accountants
Registered Auditor

7 April 2000
London

Corporate Governance (continued)

Internal Control

The Company is listed on AIM and is therefore not required to comply with the combined code. Those companies which are required to comply with the regulations are able to take advantage of transitional arrangements applying to accounting periods ending on or after 23 December 1999. In common with many of those organisations, the Directors have not undertaken a formal review of the effectiveness of the Group's non-financial controls as envisaged by the code, but intend to comply fully with the Code by the end of the next financial period.

The Board of Directors has overall responsibility for the Group's system of internal financial control. Such a system can provide only reasonable and not absolute assurance of the reliability of financial information and the safeguarding of assets.

The Group has experienced extremely rapid growth and has constantly been challenged to find the resources to manage the growth it has achieved, and as a new Company the system of controls is evolving and becoming more sophisticated. However, the Directors do not believe the Company is sufficiently developed at the current time to implement an internal audit function.

The Directors are focused to ensure that as the Company moves forward they have implemented and maintain a system of internal financial controls that has the following key features:

- An organisational structure with clearly defined lines of responsibility and delegation of authority to management. Individuals will formally be made aware of their level of authority and their budgetary responsibility.
- Strict terms of reference for all operating subsidiaries, with any matters outside those terms or the agreed business plan referred to the full Board.
- Formal business plans to be submitted for approval prior to the beginning of each financial year, and reviewed quarterly by the Board. Management accounts are produced each month and results compared against plan, and previous year where applicable, to identify significant variations.
- Identifying key risks and threats to the business, and to incorporate plans to minimise them into future activity.
- Operation of a treasury function within a defined policy designed to control the Group's cash and minimise exposure to risk.
- Appointment of experienced and professional staff of the necessary calibre to fulfil their allotted responsibilities.

Going Concern

After making enquiries and considering the Group's planned activities, and taking into account the Group's cash resources, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

Directors' Report *(continued)*

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made no political contributions, and made charitable contributions of £50 during the year.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit plc as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

P. W. Cole.

P W COLE
Company Secretary

Victoria House
64 Paul Street
London
EC2A 4NA

7 April 2000

DIRECTORS' REPORT

The Directors present their first annual report and the audited financial statements of Affinity Internet Holdings plc for the year ended 31 December 1999.

HISTORY OF THE COMPANY

On 10 December 1998, the Company was incorporated in England and Wales as YPCS77 plc. The name was changed to Affinity Internet Holdings plc on 17 March 1999.

The Company was incorporated on 10 December 1998, commencing trading on 9 April 1999 when it acquired the whole of the issued share capital of Virtual Internet Provider Limited by share for share exchange. The Company subsequently formed two additional subsidiaries, TeleCentric Solutions Limited, incorporated on 28 May 1999, and EGO Maniacs.net Limited, incorporated on 18 February 1999. On 1 July 1999, the group acquired 100% of the shares of Brightfibre Communications plc.

During the period, the Company was listed on the Alternative Investment Market of the London Stock Exchange, with dealings in the Company's shares commencing on 21 April 1999.

PRINCIPAL ACTIVITIES

The Company's principal activity is the holding of Group investments in subsidiaries involved in the provision of branded internet access, telecommunications and online entertainment.

BUSINESS REVIEW

As anticipated, the Group has incurred a loss for the period to 31 December 1999, as it strives to secure market share and develop its full range of products. The Directors are satisfied with the progress that the Group's subsidiary companies have made over the period, and are confident that progress will continue into the new financial year.

FINANCIAL REVIEW

FRS 13 requires that certain disclosures relating to financial instruments are given in the accounts, in order to provide information about the impact of financial instruments on a company's risk profile, how the risks arising may affect the entity's performance and financial condition and how those risks are managed.

The Group's financial instruments comprise borrowings, some cash and liquid resources, and various items, such as trade debtors and creditors, that arise directly from its operations.

RESEARCH AND DEVELOPMENT

The Group has minimal expenditure on specific research and development, but remains committed to locating the most up to date products for its service, and securing contractual relationships with the suppliers of these products.

PROPOSED DIVIDEND

The directors do not recommend the payment of a dividend.

Chairman's Statement (continued)

OPERATING COSTS

Operating costs consist of cost of sales and administrative expenses. Operating costs have increased throughout the year as the business has grown, with costs of £6.8 million (before exceptionals) for the second half as against £2.7 million for the first half. This reflects the increase in the general volume of business that has seen staff numbers increase from 13 at the end of January 1999 to approximately 80 at the present time, and the acquisition of more office space for the Group.

In 2000 the Group has been able to renegotiate some of the terms of its contract with ICL, which has delivered significant savings of around 50% in each of the first three months. The Group continues to look for ways of achieving further savings wherever possible.

The single largest item within operating costs relates to a charge required to be recognised under UITF 17 issued through the Accountancy Standards Board concerning the issue of shares to staff. As part of the Groups fund raising at the end of 1999 staff were offered the opportunity to subscribe for shares and other share related issues were dealt with. During the two week period leading up to the issue of these shares, the market price increased by over 100%. Under UITF 17 the difference between the price paid by the staff and the market value has been recognised through operating costs. This charge amounts to £3.1 million.

OVERSEAS EXPANSION

The Group is supervising the rollout of its products into Europe, and is currently in the process of incorporating a number of wholly owned overseas subsidiary companies as the vehicles for the trade.

RETAINED LOSS

The retained loss at the end of 1999 was £9.2million equivalent to 67 pence per share. Whilst the Group is investing to establish itself in the highly competitive market, costs will continue to exceed revenues. However, the Directors believe that as the marketplace in which the Group operates matures, and the extent to which the Internet is used increases, the number of revenue earning opportunities available will increase.

LIQUIDITY AND CAPITAL RESOURCES

The Group has been reliant on funding its cash resources through the issue of equity that has been achieved by both public and private issues.

On 20th April 1999 the Group raised £2.1million net of expenses through a public offer of shares, and raised a further £19.5million through an institutional placing on 22 December 1999.

Virtually all of the Group's net cash provided by its funding activities will provide additional working capital for the Group, and will also be applied towards the expansion of the Groups operations both in the UK and expanding into Europe, purchasing the office equipment necessary to cope with expansion, securing the necessary resources to move forward, and to make strategic acquisitions and investments. In 1999 the principal use of cash raised by the financing activities was funding the net cash outflow from operating activities of the Group (£6.7 million) and capital expenditure by the Group (£2.1 million).

The Group intends to finance its cash requirement going forward through cash from operations, cash in hand, borrowings against existing facilities and through the proceeds of additional equity or debt offerings (if and when required). At 31 December 1999 the Group had cash reserves in hand of £15million.

Chairman's Statement (continued)

OPERATIONAL REPORT AND STRATEGIC OUTLOOK TO YEAR END 2000

The Board believes that stage one of the Company's strategic development is complete. We have built the business to achieve the Affinity vision of taking any brand and extending it onto the Internet to offer Internet based business and customer services, and content services to their customers, now with the additional flexibility of fixed and mobile telephony and convergent web-based billing and e-commerce opportunities.

As a result of the foundations laid during 1999, Affinity now has access to databases, the CRM capability and billboards for placing advertisements that are prominently displayed when a site is visited and therefore lead to high levels of exposure to the target market. The degree of profiling that is currently possible means that Affinity can now offer true one-to-one communication.

The Board believes that this has been an exciting period of growth for Affinity. The Company began the year as simply a provider of branded Internet services. Over the course of twelve months the Company has laid the foundations for a broad-based e-business, providing integrated solutions in Internet, telecommunications, WAP, e-commerce and entertainment, and has developed strategic relationships with key international players in these areas. The current year promises to be equally challenging as Affinity seeks to consolidate these opportunities and develop its international offering.

FINANCIAL AND OPERATING REVIEW

OVERVIEW

Affinity Internet Holdings has evolved out of its first operating subsidiary, Virtual Internet Provider (VIP), to encompass an expanding range of Internet and telecommunications based services through our various subsidiary companies and joint ventures.

The Company was floated on AIM on 21 April 1999 and has seen its market capitalisation grow from £12.75 million to a peak in excess of £1.8 billion. The growth and volatility surrounding the share price reflects the enthusiasm and opportunities that exist in high technology stocks, as well as the uncertainty over future developments and the relatively illiquid share distribution.

TURNOVER

During 1999 turnover grew from £167,000 to £3.4 million, an increase of 1,950%. Whilst this increase has come predominantly from VIP, the figure below shows that the contribution from Affinity's younger subsidiaries and joint ventures is growing rapidly. As the year progressed VIP moved from representing 100% of the revenue earned to 81% for the last quarter of 1999. A 49% quarterly increase in VIP's revenues in the first quarter of 2000, resulted in this figure increasing back to 83% of the group's income for this quarter. The Board is confident that revenues will continue to spread more widely across the group.

Interconnect revenue has been a significant part of the Group's income throughout the year, but the business of Affinity has always been focused on a move away from this source towards other more sustainable revenue streams from other types of e-business. This opening up of additional revenues will be a key focus for the Group during the coming year, and significant revenues are now being earned in addition to interconnect. As demonstrated below, non-interconnect revenues have grown throughout 1999 and continue to do so in 2000, with 25% of revenues coming from sources other than interconnect.

Chairman's Statement (continued)

CURRENT TRADING CONDITIONS

The activity of the first quarter of the year 2000 has been predominantly to lay the foundations for the next stage of our development. Agreement has been reached in principle between the Company and Vodafone for the provision of WAP services across the globe; a joint venture has been forged with utilities giant PowerGen; the development of a convergent billing platform; Affinity joined forces with Trans National, gaining their expert Customer Relationship Marketing (CRM) skills.

VIP has experienced significant changes in its business model this year. The move towards lower costs of call charges resulted in a range of new pricing models, with which the Directors are confident will keep the Company competitive. The Directors welcome any developments that increase Internet usage, as the market will only fully reach its maturity and full potential when users are focused on content and functionality, rather than being concerned with call costs. The Affinity business model is predicated on revenue from sources other than call charges, and the Directors feel that the Group is well placed to take advantage of the higher revenue earning opportunities that will flow from increased usage. The flexibility of the Company has enabled us to remain abreast of competition, which is reinforced in the Board's decision to move towards un-metered access.

Magex Continuing our strategy of providing our clients with value adding 'sticky' content whilst encouraging e-commerce, Affinity forged a relationship with Magex, the new digital commerce service from **Nat West.** The service enables our clients to open new, profitable revenue streams by selling previously un-viewed digital content such as music, videos and publications securely over the Internet.

TeleCentric Solutions (TCS), our jointly owned telephony subsidiary, has already experienced considerable change this year. TCS is developing a convergent billing platform in conjunction with **Unisys Ltd**, the electronic business solutions company. This new technology is expected to be capable of producing a single bill for multiple products and services that can be accessed 24 hours a day via the web. The Directors believe that this method of convergent billing is the first of its kind, indicating that Affinity is proactively helping to shape the future usage of Internet, telecoms, utilities and e-commerce services.

In February we announced that **PowerGen** had committed an initial investment of up to £10 million for a 50% stake in TeleCentric Solutions (TCS). The resulting joint venture will enable TCS to combine Internet products, fixed and mobile telecommunications and utilities, as well as launching the multi-utility billing solution. These products and services will initially be made available to PowerGen's 2.6 million retail customers and all of Affinity's clients, and has the ability to be branded in their name.

EGO Maniacs.net, our online entertainment subsidiary, has recently launched a new venture – **EGO Bytes**, the in-house net events venue and has also re-launched GamesZone to become **Games Parlour**, the new fully-brandable, bespoke family-oriented entertainment portal with licence, sponsorship and advertising revenue potential.

Taxi Interactive has consolidated the e-commerce strategy and development. Since the acquisition, the Company has seen an increase in affiliate deals signed, with an on-line retailers jump of 67%, which will in the short-term filter through new revenues for the Group. A higher profile has meant that hits to the myTAXI site are growing substantially in number, and the average length of site visits is also increasing.

Chairman's Statement (continued)

ROUTES TO MARKET

In addition to the direct sales force operating across the full range of Internet, telecom, e-commerce and entertainment services, we are also able to draw upon the considerable resources of ICL and Oneview.net, the Internet solutions provider to Small and Medium size Enterprises (SMEs).

ICL, THE IT SERVICES COMPANY

At an International press conference held in November 1999, ICL announced a £100 million plan to extend its e-business revenues. Affinity was recognised as one of their three key partners alongside **Microsoft** and **Nokia**, in rolling out their international expansion plans. ICL's Electronic Business Services (EBS) sales force targets its existing client base and prospective clients with the total Affinity offering. ICL is a valuable sales channel for us and allows access to a significant number of mid-size, major corporate and branded accounts.

ONEVIEW.NET

In November 1999 Affinity reached agreement to create a joint venture with Oneview.net plc that was subsequently confirmed by the signing of a contract in February 2000. The joint venture with Oneview.net enables Affinity to provide a total Internet solution for SMEs within the UK, European and international marketplace. Oneview.net brings considerable experience and expertise in **web design** and **development, hosting, education** and **support** within the **SME** market. Additionally, the regional distribution of Oneview.net's sales force of over 190 personnel provides Affinity with immediate and local access to SMEs, enabling an effective and expedient rollout of the business service and complements Affinity's customer business.

The recent takeover of Oneview.net plc by freecom.net plc, the owners of the SME accounting software package "Pegasus" has, in the opinion of the Directors, further enhanced this offering.

SUMMATION OF 1999

As reflected by the figures included in the Financial Review, the business has grown rapidly throughout 1999, and this has been reflected in the increase in the market value of the Company. The growth in the business has seen the Group enter into new leases for office premises to house the increased staff numbers that have risen from 13 at the start of the year to over 80 at the time of writing (excluding employees of the overseas subsidiaries and minority interests, which account for approximately 30 employees).

Our employees are key to the business, and all were offered shares in the company at the time of our second fund raising last Winter. The Directors were delighted that more than 80% of staff members subscribed for shares, and despite the large increase in value that they have experienced a significant proportion retain shares to benefit from the future development of the Group.

The Group has evolved from a provider of Internet access into an **eBusiness Solutions Innovator**, encompassing access, telecommunications, entertainment and e-commerce. The Board are therefore delighted with the progress made over the 12 month period and feel optimistic that the foundation has been laid for further growth during 2000.

Throughout 1999 the Group experienced significant demands for its services, which resulted in the number of corporate customers signed to the Group, and the number of end-users of the Group's services brought to us through the brand owners, increasing ahead of expectation.

Chairman's Statement (continued)

Following the belief in the value of content, Affinity is concluding the terms of its joint venture with **Healix Group plc**, the healthcare professionals network. The joint venture intends to create a dedicated healthcare portal and provide additional content to our existing client's web sites. The Directors believe that there are significant advertising opportunities associated with this JV, particularly in view of the popularity of health sites in the US.

In December, Affinity announced a strategic agreement with Engage, a leading provider of profile driven Internet marketing solutions. The agreement will allow VIP to offer its existing and future clients the ability to provide **high value, profiled** and **targeted advertisements, content** and **e-commerce** offerings through Engage. Engages' anonymous profiling software is designed to enable VIP's clients to increase the average length of time their site is visited and ensure that the customer has a more tailored and personal online experience. This aims to increase customer **loyalty, retention** and **probability** of visitors responding to adverts and e-commerce offerings - factors that are critical to the success of our overall business strategy.

INTEGRATED TELEPHONY SOLUTIONS

The business plan of the Group was not predicated on interconnect revenue. Given this, the Group continues to extend its activities into the UK telecommunications market, taking advantage of the opportunities that exist in the deregulated telecommunications industry. The Directors believe that this diversification will enable the Company to seize wider revenue earning opportunities, whilst simultaneously providing synergy and low cost savings within its existing operations. As a result, the Company has the flexibility and revenue to support innovative marketing initiatives, which includes un-metered access.

In July 1999 the Company acquired **Brightfibre Communications plc** to obtain the knowledge and billing platform necessary for the Company to expand its services into telecommunications. **TeleCentric Solutions Ltd (TCS)** took the qualities brought by Brightfibre and developed a service that addressed some of the needs of the UK telecommunications customer and allowed high level brands, such as **Tiny Online** and **Virgin Group** to capitalise on the opportunity.

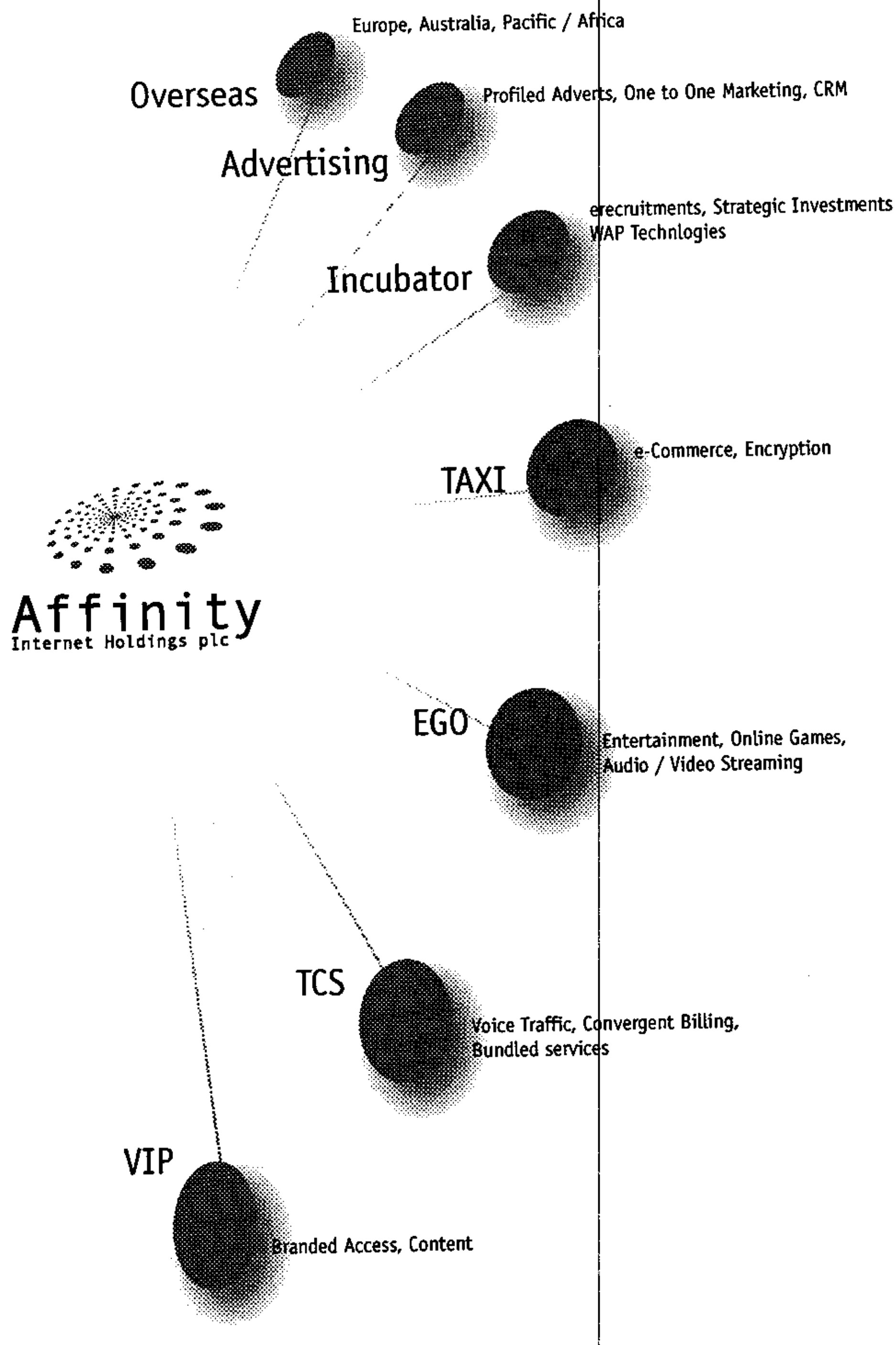
TCS continues to promote its services to the Company's existing client base, deriving revenue from both voice and data traffic.

ONLINE ENTERTAINMENT

Entertainment is one of the fastest growing areas of interest on the Internet. With this view in mind, during the second half of 1999 Affinity created a new, wholly owned, online entertainment subsidiary, named EGO Maniacs.net (European Games Online).

Initially EGO won the contract for the exclusive provision of **SegaSoft's HEAT.NET** games service throughout Europe - one of the largest online PC games services in the United States. This was shortly followed by the e-commerce agreement with **Gameplay.com** to supply and maintain a co-branded shopping site linked to the HEAT.net Europe website. Furthermore, in a move designed to complement HEAT.net and to cover a broader spectrum of the online games marketplace, EGO purchased **GamesZone**, a family-oriented games service from ICL.

Increasingly VIP clients incorporate an entertainment element on their websites, frequently opting to use EGO's services. All services are aimed at generating e-commerce, sponsorship and advertising revenue.



OVERSEAS

Service enabled	Next Phase	Future Rollout
United Kingdom	Sweden	Germany
Ireland	Finland	Austria
Holland	Australia	Spain
Belgium	Norway	Italy
Luxembourg	South Africa	
	Denmark	

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Wayne Lochner	CEO
Stuart Barker ACA	Finance Director
Allan Redfern	Business Development Director
Robert Southward	Technical Director
Peter Howard-Dobson	Non-executive Director
June May	Non-executive Director

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