

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. When considering what action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services Act 1986.

If you have sold or otherwise transferred all of your existing Ordinary Shares, please pass this document together with the accompanying Application Form and Form of Proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted in or into the United States of America, Canada, Australia, Japan or the Republic of Ireland.

A copy of this document, which comprises a prospectus relating to Affinity Internet Holdings PLC in accordance with the listing rules made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act.

Application has been made to the UK Listing Authority for all of the ordinary share capital of Affinity, issued and to be issued in connection with the Placing and Open Offer, to be admitted to the Official List and to the London Stock Exchange for all such ordinary share capital to be admitted to trading on the London Stock Exchange. The Company's shares are currently dealt on AIM. It is expected that admission of the Ordinary Shares to the Official List will become effective, and dealings on the London Stock Exchange will commence, on 24 October 2000. The New Ordinary Shares will rank *pari passu* in all respects with the existing Ordinary Shares.

This document does not constitute an offer to sell, or the solicitation of an offer to buy, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. The New Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or under the applicable securities laws of Canada, Australia, Japan or the Republic of Ireland. The New Ordinary Shares may not be offered or sold within the United States of America, Canada, Australia, Japan or the Republic of Ireland. The distribution of this document may be restricted by law in certain jurisdictions and persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. The attention of Overseas Shareholders is drawn to paragraph 7 of Part 2 of this document.

The directors of Affinity, whose names appear on page 3 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.

Prospective investors should be aware that an investment in Affinity involves a high degree of risk. In particular, prospective investors should consider "Risk Factors" in Part 3 of this document.

Affinity does not have a three year trading record and has made its application for Admission under the provisions of Chapter 25 of the Listing Rules of the UK Listing Authority ("Innovative High Growth Companies").

AFFINITY INTERNET HOLDINGS PLC

(Registered and incorporated in England and Wales No. 3681853)

Application to the UK Listing Authority
the ordinary share capital of Affinity
be admitted to the Official List



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28/9/2000 Proposed Placing and Open Offer

by Charles Stanley & Company Limited of
2,425,596 New Ordinary Shares at a price of £10.00 per share

Notice of Extraordinary General Meeting

Charles Stanley & Company Limited ("Charles Stanley"), which is regulated by The Securities and Futures Authority Limited, is acting for the Company and no-one else in connection with the Placing and Open Offer. Accordingly, Charles Stanley & Company Limited will not be responsible to anyone other than the Company for providing the protections afforded to its own clients nor for providing advice in connection with the Placing and Open Offer.

Notice of an Extraordinary General Meeting of Affinity Internet Holdings PLC to be held at 10.00 am on 23 October 2000 at the offices of Charles Stanley, 25 Luke Street, London EC2A 4AR is set out at the end of this document. A Form of Proxy for use at the meeting is enclosed. To be valid, the Form of Proxy must be completed and returned, in accordance with the instructions printed thereon, to Computershare Services PLC, PO Box 1075, The Pavilions, Bristol BS99 3FA as soon as possible but in any event so as to arrive no later than 10.00 am on 21 October 2000.

The latest time and date for application and payment in full under the Open Offer is 3.00 pm on 19 October 2000. The procedure for application and payment is set out in paragraph 3 of Part 2 of this document.

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DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Terence Plummer	<i>Executive Chairman</i>
	Wayne Lochner	<i>Chief Executive Officer</i>
	Robert Ferguson Southward	<i>Technical Director</i>
	Allan Redfern	<i>Business Development Director</i>
	Stuart Paul Barker, ACA	<i>Finance Director</i>
	Peter Charles Howard-Dobson	<i>Non-executive director</i>
	June Carol May	<i>Non-executive director</i>
	all of	
	Victoria House	
	2nd Floor	
	64 Paul Street	
	London EC2A 4NA	
Company secretary and registered office	Peter Cole, ACIS	
	Victoria House	
	2nd Floor	
	64 Paul Street	
	London EC2A 4NA	
Sponsor and broker	Charles Stanley & Company Limited	
	25 Luke Street	
	London EC2A 4AR	
Legal advisers to the Company	Haarmann Hemmelrath	
	Tower 42	
	International Financial Centre	
	28th Floor	
	25 Old Broad Street	
	London EC2N 1HQ	
Legal advisers to Charles Stanley	Slaughter and May	
	35 Basinghall Street	
	London EC2V 5DB	
Auditors and reporting accountants	KPMG Audit Plc	
	8 Salisbury Square	
	London EC4Y 8BB	
Bankers	Barclays Bank PLC	
	PO Box 4578	
	155 Brompton Road	
	London SW3 1XD	
	Singer & Friedlander Limited	
	21 New Street	
	Bishopsgate	
	London EC2M 4HR	
Registrars	Computershare Services PLC	
	PO Box 82	
	The Pavilions	
	Bridgwater Road	
	Bristol BS99 2NH	
Receiving agent	Computershare Services PLC	
	PO Box 859	
	The Pavilions	
	Bridgwater Road	
	Bristol BS99 1XZ	

PLACING AND OPEN OFFER STATISTICS

Placing Price	£10.00
Number of Ordinary Shares currently in issue	21,830,365
Number of New Ordinary Shares to be issued pursuant to the Placing and Open Offer	2,425,596
Number of Ordinary Shares to be in issue immediately following Admission	24,255,961
Percentage of ordinary share capital to be comprised of New Ordinary Shares immediately following Admission	10.0 per cent.
Market capitalisation of the Company based on the closing mid-market price on 27 September 2000	£285,007,541.75
Approximate net proceeds to be received by the Company from the Placing and Open Offer	£21,255,960

EXPECTED TIMETABLE

Record Date for entitlement to the New Ordinary Shares	22 September 2000
Latest time and date for splitting Application Forms	3.00 pm on 17 October 2000
Latest time and date for receipt of completed Application Forms and payment in full	3.00 pm on 19 October 2000
Latest time and date for receipt of Forms of Proxy	10.00 am on 21 October 2000
Time and date of Extraordinary General Meeting	10.00 am on 23 October 2000
Admission and commencement of dealings in the <i>Ordinary Shares and the New Ordinary Shares</i>	24 October 2000
Despatch of share certificates for New Ordinary Shares	7 November 2000

PART 1

LETTER FROM THE CHAIRMAN OF AFFINITY

AFFINITY INTERNET HOLDINGS PLC

(Registered and incorporated in England and Wales No. 3681853)

Registered office

Victoria House
2nd Floor
64 Paul Street
London EC2A 4NA

28 September 2000

To Shareholders and, for information only, to participants in the Share Option Schemes

Dear Shareholder,

**Application to the UK Listing Authority
for all of the ordinary share capital of Affinity to be admitted to the Official List**

**Proposed Placing and Open Offer
by Charles Stanley & Company Limited of
2,425,596 New Ordinary Shares
at a price of £10.00 per share**

Notice of Extraordinary General Meeting

1. Introduction

The Board announced on 11 March 2000 that Affinity proposed to apply to the UK Listing Authority for the Company's Ordinary Shares to be admitted to the Official List under Chapter 25 of the Listing Rules of the UK Listing Authority ("Innovative High Growth Companies"). The proposed application was approved by Shareholders at an extraordinary general meeting of the Company on 29 March 2000.

As announced by the Board on 30 March 2000, the Company intends to use the opportunity of the move to the Official List to raise additional capital to finance the further development of Affinity's business. It is proposed to raise approximately £24.25 million, before expenses (approximately £21.25 million, net of expenses), by way of the issue of 2,425,596 New Ordinary Shares at the Placing Price of £10.00 per share. Qualifying Shareholders are being provided with the opportunity to acquire New Ordinary Shares at the Placing Price pursuant to the Open Offer being made, on behalf of the Company, by Charles Stanley. Certain of the directors of the Company have given irrevocable undertakings not to take up any of their entitlements under the Open Offer in respect of 1,425,401 New Ordinary Shares, which have been conditionally placed on a firm basis with certain institutional and other investors pursuant to the Placing being carried out, on behalf of the Company, by Charles Stanley. 1,000,195 New Ordinary Shares have been conditionally placed at the Placing Price pursuant to the Placing, but subject to recall to satisfy valid applications by Qualifying Shareholders pursuant to the Open Offer.

Given the Board's limited existing powers in relation to the Company's share capital, the Placing and Open Offer are conditional upon approval by Shareholders of a resolution to be proposed at an Extraordinary General Meeting of the Company to be held at the offices of Charles Stanley at 10.00 am on 23 October 2000. The resolution proposed to be passed at the EGM will give the directors authority to allot Ordinary Shares and to do so otherwise than in accordance with the pre-emption procedures of the Act for the purposes of the Placing and Open Offer only. A notice convening the EGM is set out at the end of this document.

2. Business development

Since the beginning of 1999, the scale and mix of Affinity's business has changed significantly.

VIP, a wholly-owned subsidiary of Affinity, provides branded Internet access to the customers of its corporate clients. VIP has increased its client base from 13 brand launches by 31 December 1998, to 118 by 31 December 1999 and 145 by 30 June 2000. Brand launches since VIP began trading include those for Tiny Computers, Powergen, Egg, Arsenal Football Club, Reed Business Information and the Royal Bank of Scotland. The number of 60 day active accounts at VIP has grown from less than 10,000 at 31 December 1998 to 267,104 at 31 December 1999 and 391,116 at 30 June 2000. 60 day active accounts are those registered accounts which have been accessed by the relevant end-user at least once during the previous 60 days.

Alongside the growth of VIP, Affinity has moved into a number of related business areas since the beginning of 1999. These areas include branded telecommunications, convergent billing, e-commerce and online entertainment. In the opinion of the Board, all these areas have the potential both to add to the range of the Group's offering to clients and to diversify the Group away from a reliance on interconnect revenues. Interconnect revenues are revenues derived from telecommunications providers relating to call charges from voice or Internet traffic. The Board believes the Group has the potential to become one of the UK's leading providers of integrated Internet-related services.

The Group has also begun to expand internationally, moving into the Netherlands at the end of 1999. Affinity is initially seeking to build upon the growth of VIP in the UK by offering the company's branded Internet access product in the Netherlands. It is expected that this will be followed by a broader range of related products, including e-commerce and online entertainment. In addition, the Group has a presence in the Australian market through a 25 per cent. holding in Affinity Australia, a branded Internet access provider 75 per cent. controlled by Australia.com. Affinity holds 6.2 per cent. of the issued share capital of Australia.com. Further international expansion, in Scandinavia and South Africa, is expected before the end of 2000. Expansion into certain other European markets is expected by the Board during the course of 2001. The Board believes that its experience to date of providing Internet services gained in the UK market will help it to establish the Group in overseas markets.

Further information relating to the business development and prospects of the Group is set out in Part 4 of this document.

3. Non-financial operating data

Given the early stage of development of the Group, the Board believes that financial information alone may not fully reflect the underlying performance and growth of the business. Accordingly, the Board utilises a range of non-financial operating data for the Group. To date VIP is the only Group company for which such data have been material. The Company expects, however, in future to utilise such data in relation to the Group's other companies as the relevant data for these companies become more meaningful. The following table, which is unaudited, summarises, on a quarterly basis from 30 September 1999 to 30 June 2000, the data which the Board has utilised, and also sets out an expected range for such data for the period to 31 December 2001, which has been based on the best estimates of the Directors.

	<i>As at 30 September 1999</i>	<i>As at 31 December 1999</i>	<i>As at 31 March 2000</i>	<i>As at 30 June 2000</i>	<i>Expected range as at 31 December 2001</i>
Number of VIP registered accounts	415,810	601,271	804,304	964,223	1,260,000 to 1,675,000
Number of VIP 60 day active accounts	216,175	267,104	374,683	391,116	595,000 to 790,000
Number of VIP 28 day active accounts	172,212	234,292	314,639	328,820	475,000 to 620,000
TCS users	—	2,171	2,171	2,216	185,000 to 235,000
EGO Maniacs users	—	14,073	22,084	31,889	50,000 to 75,000
TAXI users	—	83,219	124,887	89,387	300,000 to 360,000

	<i>Three months ended 30 September 1999</i>	<i>Three months ended 31 December 1999</i>	<i>Three months ended 31 March 2000</i>	<i>Three months ended 30 June 2000</i>
Average minutes of use per VIP 28 day active account	413	455	508	469
VIP churn	N/A	33.5%	20.3%	26.8%

The detailed explanation of the sources and basis of preparation adopted for these non-financial operating data is set out in Part 6 of this document. In order for the ordinary share capital of the Company to be admitted to the Official List and to remain admitted, Affinity will need to report, in all quarterly and annual results, the then current data in the above categories of non-financial operating data, together with such other categories of non-financial operating data as may become relevant as the Group's business develops over time. Previously, the Company has reported the number of VIP users as being 1,183,235 as at March 2000, and the total number of Group users as being 1,332,377 as at that date. However, after consultation with its professional advisers, the Company has reviewed its reporting policy and considers the figure of 804,304 VIP registered accounts as at 31 March 2000 to be more accurate and of greater significance for an analysis of the underlying performance of the business of VIP since the 804,304 registered accounts denote separate end-users contracting with VIP. Using VIP's 804,304 registered accounts as VIP's contribution to calculating numbers of Group users, the overall number of Group users as at 31 March 2000 was 953,446.

4. Audited quarterly results for the three months to 31 March 2000 and unaudited interim results for the six months to 30 June 2000

The Group's audited quarterly results for the three months to 31 March 2000 are set out in Part 7 of this document. The Group's turnover (including its share of income from joint ventures) during this period was £2.071 million, with interconnect revenues accounting for 74 per cent. of that. The Group's consolidated operating loss was £3.008 million. Taking account of the profit on the disposal in February 2000 of 50 per cent. of the Group's interest in TCS to Powergen and net interest receivable, the Group made a consolidated profit before tax for the period of £1.239 million.

The Group's unaudited interim results for the six months to 30 June 2000 are set out in Part 9 of this document. The Group's turnover (including its share of income from joint ventures) during this period was £4.547 million, with interconnect revenues accounting for 70 per cent. of that. The Group's consolidated operating loss was £7.001 million. Taking account of the profit on the disposal in February 2000 of 50 per cent. of the Group's interest in TCS to Powergen and net interest receivable, the Group made a consolidated loss before tax for the period of £3.436 million.

Shareholders should read the whole of this document, particularly Parts 7, 8 and 9, and not just rely upon this summarised information.

5. Current trading and prospects

The Board was pleased with the performance of the Group in the first half of the current year and expects the remainder of the current year to be challenging as Affinity seeks to consolidate and exploit its various partnerships, agreements and joint ventures and to develop its international offering. Given the high levels of expenditure required to support the planned growth of the Group's business the Board does not expect the Group to report a profit for the foreseeable future.

The Directors are of the opinion that the market confusion recently experienced over the emergence of unmetered access has been a factor in a small decline in 60 day and 28 day active accounts since 30 June 2000. The withdrawal by Alta Vista of its unmetered access offer has, in the opinion of the Board, left demand for unmetered products unsatisfied.

TCS has completed the development of its Unisys-designed convergent billing platform and is now offering its services to Powergen and Tiny Computers.

The Group is continuing to work on the establishment of a partnership with Vodafone to develop m-commerce capabilities and on the roll out of its joint venture with Trans National, TransAffinity.

6. Background to the move to the Official List

As set out in the circular to Shareholders dated 11 March 2000, in the opinion of the Board the Company's move from AIM to the Official List, where it will trade under techMARK, will provide access to a broader investor base and allow the Company to benefit from new potential sources of funding. These sources could include institutional shareholders which are currently unwilling or unable to invest in companies trading on AIM. Overall, in the opinion of the Board, the move to the Official List represents a logical step in the Company's development.

7. Background to the Placing and Open Offer

The Board proposes that approximately £21.25 million, net of expenses, will be raised through the issue of 2,425,596 New Ordinary Shares at the Placing Price of £10.00 per share. The Board intends to use these proceeds for the development of the Group's businesses and to finance a number of projects which the Board believes are necessary for the Group's further successful development and for general corporate purposes. Further information on the background to these projects is set out below and in Part 4 of this document.

8. Funding requirements and capital expenditure plans

Over the next 24 months, based on its current business plan, the Board expects to invest approximately £25.4 million in the following projects: development of the TransAffinity joint venture, £8.5 million; development of an effective WAP capability, £4.53 million; investment in joint ventures and other opportunities to develop the UK and international business of VIP as set out in paragraph 9 of Part 4 of this document, £2.32 million; the development of the TCS billing platform, £1.6 million; and general capital expenditure, including software, £8.45 million.

The Group has an outstanding contractual commitment to provide funding of £1.6 million to TCS. Otherwise the planned expenditure is not represented by contractual commitments on the part of the Group.

In addition, the proposed international expansion is expected to require working capital funding of up to £15 million over the next two years. Expenditure which does not reflect contractual commitments will only be incurred by the Group to the extent funds are available and after consideration of the future funding requirements of the Group.

It is the Board's belief that the total development funding and capital expenditure requirement will be met from the Group's existing cash resources, the net proceeds of the Placing and Open Offer and cash generated by the business over the 24 months from the date of this document. In the event that cash generated from operations exceeds that required for the expenditure plans outlined above, the excess cash will be used for general corporate purposes and to allow the Group to be able to respond selectively to promising internal capital expenditure or external acquisition opportunities which may arise in the future. As at 30 June 2000, as set out in Part 9 of this document, the Group's unaudited balance sheet showed cash at bank and in hand of £12.5 million. Under the Placing and Open Offer, the Board proposes that approximately £21.25 million of cash will be raised, net of expenses. Accordingly, as set out in Part 8 of this document, the unaudited pro forma statement of net assets following the issue of the New Ordinary Shares shows cash at bank and in hand of £33.75 million.

As with the Group's existing cash at bank and in hand, the proceeds from the Placing and Open Offer will be placed on deposit prior to being utilised.

9. Lock-up arrangements

Pursuant to the AIM Rules, those persons who were directors of the Company as at 20 April 1999, the date of admission of the Ordinary Shares to trading on AIM, undertook not to dispose of any interest in their Ordinary Shares for a period of one year from that date, subject to the exceptions provided for in the AIM Rules. There were no other persons who, by virtue of holding at that date any interest in 1 per cent. or more of the Ordinary Shares, were required by the AIM Rules to give a similar undertaking.

Although this undertaking expired on 20 April 2000, the directors have not made any sales of their Ordinary Shares since 20 April 1999 other than in the case of one director who sold 2,500 Ordinary Shares on 2 May 2000 in order to raise money to pay medical expenses for a family member. Additionally, certain of the directors intend to dispose of an aggregate total of 275,768 Ordinary Shares by way of the gifts set out in paragraph 5.2 of Part 10 of this document.

The Company and Charles Stanley have agreed that, having regard to the fact that there has been a public market in the Ordinary Shares since 20 April 1999, that the directors undertook not to dispose of any interest in their Ordinary Shares for one year from that date pursuant to the AIM Rules and that no significant sales of Ordinary Shares have been made by any of the directors since that date, no absolute prohibition should be imposed on the directors, senior management and substantial shareholders of the Company with regard to the disposal of any of the Company's securities, including their Ordinary Shares, following Admission.

Each of the directors has, however, given an undertaking to Charles Stanley in the Placing Agreement that, in order not to prejudice the maintenance of an orderly market in the Ordinary Shares, he or she will not, and will procure that any of his or her connected persons (as defined in section 346 of the Act) who hold Ordinary Shares will not, without the consent of Charles Stanley (such consent not to be unreasonably withheld) and without consulting Charles Stanley, transfer or otherwise dispose of any Ordinary Shares (including any Ordinary Shares acquired at any time after Admission) from Admission for a period ending on the date falling six months from Admission.

The Company has further resolved to adopt the Model Code concerning dealings in shares, which forms part of the Listing Rules. The directors have undertaken to Charles Stanley in the Placing Agreement to observe the provisions of the Model Code, and it is the policy of the Company to enforce compliance with the Model Code by the directors and other senior managers of the Company.

The Company is satisfied that, having regard to the circumstances particular to this Company, the undertakings given by each director to Charles Stanley in the Placing Agreement and their compliance with the Model Code will be adequate to ensure that an orderly market in the Ordinary Shares will not be prejudiced by the directors following Admission.

10. The Open Offer

Under the terms of the Open Offer, Qualifying Shareholders are being offered the opportunity to subscribe for 2,425,596 New Ordinary Shares on the basis of:

1 New Ordinary Share for every 9 Ordinary Shares

held on the Record Date and so in proportion for any greater number of Ordinary Shares then held, at the Placing Price of £10.00 per New Ordinary Share. The Placing Price represents a discount of 14.9 per cent. to the closing mid-market price of £11.75 per Ordinary Share on 27 September 2000, the last dealing day prior to the publication of this document.

No fractions of New Ordinary Shares will be offered to Qualifying Shareholders and, accordingly, any resulting excess entitlements of Qualifying Shareholders will be rounded down to the nearest whole number of New Ordinary Shares. These excess entitlements will be aggregated and allotted pursuant to the Placing with the proceeds being retained for the benefit of the Company. A Qualifying Shareholder may apply for any number of New Ordinary Shares up to his or her maximum entitlement. If an application exceeds the relevant Qualifying Shareholder's maximum entitlement, such Qualifying Shareholder will be deemed to have applied for his or her maximum entitlement.

The New Ordinary Shares will rank *pari passu* in all respects with the existing Ordinary Shares. The New Ordinary Shares, when issued and fully paid, may be held and transferred by means of CREST. Share certificates in respect of New Ordinary Shares to be held in certificated form are expected to be despatched on 7 November 2000, and the crediting of CREST accounts in respect of New Ordinary Shares to be held in uncertificated form is expected to take place on 24 October 2000.

The Placing and Open Offer is conditional upon the Placing Agreement becoming unconditional. The Placing Agreement is conditional, *inter alia*, upon:

- (a) the passing of the Resolution at the Extraordinary General Meeting (or any adjournment thereof); and
- (b) Admission becoming effective no later than 8.00 am on 24 October 2000 (or such later date as may be agreed by the Company and Charles Stanley).

Your attention is drawn to the letter from Charles Stanley in Part 2 of this document which sets out the terms of the Open Offer and the procedure for application and payment.

11. Dividend policy

The Company has not paid any dividends since it commenced its operations. For the foreseeable future the Company intends to retain any earnings for investment in the development and expansion of its business and it does not expect to pay any cash dividends on its shares.

12. UK taxation

Information on United Kingdom taxation with regard to the Open Offer is set out in paragraph 6 of Part 10 of this document. **If you are in any doubt as to your tax position, you should consult a professional adviser.**

13. Extraordinary General Meeting

Shareholders will find at the end of this document a notice convening an Extraordinary General Meeting to be held at the offices of Charles Stanley, 25 Luke Street, London EC2A 4AR at 10.00 am on 23 October 2000 at which a special resolution will be proposed to give the Directors authority to allot Ordinary Shares and to do so otherwise than on a pre-emptive basis for the purposes of the Placing and Open Offer only. The authorities conferred by the Resolution will be in addition to the authorities granted at the Company's first annual general meeting ("AGM") held on 9 June 2000, but the authorities conferred by the AGM will otherwise remain unaffected.

14. Action to be taken

EGM

Shareholders will find enclosed with this document a Form of Proxy for use at the Extraordinary General Meeting. Whether or not you propose to attend the Extraordinary General Meeting in person, you are requested to complete the Form of Proxy and return it as soon as possible, and in any event so as to be received no later than 10.00 am on 21 October 2000, to the Company's registrars, Computershare Services PLC, PO Box 1075, The Pavilions, Bristol BS99 3FA. The return of the Form of Proxy will not preclude you from attending and voting at the meeting if you so wish.

Open Offer

If, being a Qualifying Shareholder, you wish to apply for all or any of the New Ordinary Shares to which you are entitled, you should complete the enclosed Application Form in accordance with the instructions printed thereon, and lodge it, together with a remittance for the full amount payable on application, by post or hand, with Computershare Services PLC, PO Box 859, The Pavilions, Bristol BS99 1XZ or by hand only (during normal business hours) with Computershare Services PLC, 7th Floor, Jupiter House, Triton Court, 14 Finsbury Square, London EC2A 1BR as soon as possible, and, in any event, so as to arrive not later than 3.00 pm on 19 October 2000. Applications received after that time may be treated as invalid.

15. Recommendation

The Directors consider that the Placing and Open Offer, and the passing of the Resolution to be proposed at the EGM, are in the best interests of Shareholders as a whole. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolution to be proposed at the Extraordinary General Meeting, as they intend to do in respect of their own beneficial holdings of 12,828,650 Ordinary Shares, representing approximately 58.75 per cent. of the issued share capital of the Company.

Yours sincerely,

Terry Plummer
Executive Chairman

PART 2
LETTER FROM CHARLES STANLEY

CHARLES STANLEY

28 September 2000

To Qualifying Shareholders

Dear Sir or Madam,

**Proposed Placing and Open Offer of 2,425,596 New Ordinary Shares
at a price of £10.00 per share**

1. Introduction

As set out in the letter from the Chairman of Affinity in Part 1 of this document, the Company is proposing to raise approximately £24.25 million, before expenses, by way of the issue of 2,425,596 New Ordinary Shares at the Placing Price of £10.00 per share. This letter and the Application Form contain the formal terms and conditions of the Open Offer.

Qualifying Shareholders are being provided with the opportunity to acquire New Ordinary Shares at the Placing Price pursuant to the Open Offer being made, on behalf of the Company, by Charles Stanley & Company Limited ("Charles Stanley"). Certain Qualifying Shareholders have given irrevocable undertakings not to take up any of their entitlements under the Open Offer in respect of 1,425,401 New Ordinary Shares, which have been conditionally placed on a firm basis by Charles Stanley with certain institutional and other investors.

2. The Open Offer

Charles Stanley, as agent for and on behalf of the Company, hereby invites Qualifying Shareholders to apply for New Ordinary Shares at the Placing Price, payable in full in cash on application. The Open Offer is made on the terms and subject to the conditions set out in this Part 2 and in the Application Form enclosed with this document.

Qualifying Shareholders may apply for as many New Ordinary Shares as they wish, up to their maximum *pro rata* entitlement, calculated on the following basis:

1 New Ordinary Share for every 9 Ordinary Shares

held on the Record Date and so in proportion for any greater number of Ordinary Shares held. The maximum entitlement for each Qualifying Shareholder is shown on his or her Application Form in Box C. If the number of New Ordinary Shares applied for by a Qualifying Shareholder exceeds his or her maximum entitlement, such Qualifying Shareholder will be deemed to have applied for his or her maximum entitlement. No fractions of New Ordinary Shares will be offered to Qualifying Shareholders. Entitlements of Qualifying Shareholders will therefore be rounded down to the nearest whole number of New Ordinary Shares and, accordingly, any fractional entitlements of Qualifying Shareholders will be aggregated and allotted under the Placing with the proceeds being retained for the benefit of the Company. Holdings of Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer. The New Ordinary Shares will be in registered form, will be issued credited as fully paid and will rank *pari passu* in all respects with the Ordinary Shares.

Charles Stanley & Company Limited
Address and registered office:
25 Luke Street, London EC2A 4AR
Registered in England No. 1903304

REGULATED BY THE SECURITIES AND FUTURES AUTHORITY. A MEMBER OF THE LONDON STOCK EXCHANGE

The Placing and Open Offer is conditional upon the Placing Agreement becoming unconditional. The Placing Agreement is conditional, *inter alia*, upon:

- (a) the passing of the Resolution at the Extraordinary General Meeting (or any adjournment thereof); and
- (b) Admission becoming effective no later than 8.00 am on 24 October 2000 (or such later date as may be agreed by the Company and Charles Stanley).

3. Procedure for application

Applications may only be made for the New Ordinary Shares on the enclosed Application Form which is personal to the Qualifying Shareholder named on it. The Application Form represents a conditional right to apply for New Ordinary Shares subject to, *inter alia*, Admission. It is not a document of title and it may not be sold, assigned or transferred, except to satisfy *bona fide* market claims in relation to purchases of Ordinary Shares through the market prior to the date (the "ex date") on which the existing Ordinary Shares are marked "ex" the entitlement to participate in the Open Offer pursuant to the Rules of the London Stock Exchange. Application Forms may be split, but only to satisfy *bona fide* market claims, up to 3.00 pm on 17 October 2000. Persons who have, prior to the ex-date, sold or otherwise transferred some or all of their Ordinary Shares should contact their stockbroker, bank or other agent authorised under the Financial Services Act 1986 through whom the sale or transfer was effected and refer to the instruction regarding split applications set out in the accompanying Application Form, since the invitation to subscribe for New Ordinary Shares under the Open Offer may represent a benefit which can be claimed from them by purchasers or transferees under the Rules of the London Stock Exchange.

In the Open Offer, unlike in a rights issue, the New Ordinary Shares which are not applied for will not be sold in the market for the benefit of those Qualifying Shareholders who do not apply, but will instead be issued to the institutional or other investors with whom the New Ordinary Shares have been conditionally placed pursuant to the Placing, with the proceeds being retained for the benefit of the Company. The Application Form is not a document of title and cannot be traded.

Qualifying Shareholders who do not wish to apply for New Ordinary Shares under the Open Offer should not complete or return the Application Form. Regardless of this, Shareholders are encouraged to vote at the Extraordinary General Meeting by completing and returning the enclosed Form of Proxy.

The Application Form shows the number of existing Ordinary Shares registered in the name of a Qualifying Shareholder on the Record Date, on the basis of which the relevant Qualifying Shareholder's entitlement has been determined, and the maximum number of New Ordinary Shares for which such Qualifying Shareholder may apply, calculated as described above.

The Company and Charles Stanley reserve the right (but shall not be obliged) to treat an application for more than a Qualifying Shareholder's maximum entitlement, which is valid in all other respects, as a valid and binding application for the Qualifying Shareholder's maximum entitlement. A Qualifying Shareholder may apply for less than his or her maximum entitlement should he or she wish.

Qualifying Shareholders wishing to apply for all or any of the New Ordinary Shares to which they are entitled should complete and sign the accompanying Application Form in accordance with the instructions thereon and return it, in the reply-paid envelope provided, to Computershare Services PLC, PO Box 859, The Pavilions, Bristol BS99 1XZ or by hand only (during normal business hours) to Computershare Services PLC, 7th Floor, Jupiter House, Triton Court, 14 Finsbury Square, London EC2A 1BR, together with a remittance for the full amount, made payable to The Royal Bank of Scotland plc A/C "Affinity", so as to arrive as soon as possible and in any event by not later than 3.00 pm on 19 October 2000, at which time the Open Offer will close.

Application Forms received after this time may not be accepted. Applications, once made, will be irrevocable and will not be acknowledged. If an Application Form is sent by post, Qualifying Shareholders are recommended to allow at least four working days for delivery. The instructions and other terms set out in the Application Form are part of the terms of the Open Offer.

Charles Stanley and the Company reserve the right (but shall not be obliged) to treat as valid applications in respect of which remittances are received prior to 3.00 pm on 19 October 2000 from authorised persons (as defined in the Financial Services Act 1986) specifying the names of the Qualifying Shareholder(s) concerned and undertaking to lodge the relevant Application Form(s) in due course.

Qualifying Shareholders who hold their existing Ordinary Shares in certificated form will be allotted New Ordinary Shares in certificated form. Qualifying Shareholders who hold their existing Ordinary Shares in uncertificated form will be allotted New Ordinary Shares in uncertificated form. Notwithstanding any other provision of this document, the Company reserves the right to allot and/or issue any New Ordinary Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST, or of any part of CREST, or on the part of the facilities and/or system operated by the Registrars in connection with CREST. The right may also be exercised if the correct details (such as member account ID and participant ID details) are not provided in Box M, as requested, on the Application Form.

4. Money laundering

The verification of identity requirements of the Money Laundering Regulations 1993 will apply and verification of the identity of any person lodging an Application Form (an "Applicant") under the Open Offer may be required. If the value, at the Placing Price, of the New Ordinary Shares for which an Applicant is applying does not exceed €15,000 (approximately £9,050), the Applicant will not be required to satisfy the verification of identity requirements described below. However, if such value exceeds €15,000 and the relevant application is to be settled by way of third party payment, then failure to provide the necessary evidence of identity may result in such application being treated as invalid or in delays in accepting such application. In order to avoid this, if the value at the Placing Price of the Offer Shares for which the Applicant is applying does exceed €15,000, payment should be made by means of a cheque drawn on an account in the name of the person named in the Application Form (or, where several persons are named, one of such persons) or (where an Application Form has been transferred and/or split to satisfy *bona fide* market claims in relation to transfers of Ordinary Shares through the market prior to the ex date) on an account in the name of a person named in Box H (where applicable) on the Application Form. If this is not practicable and the Applicant uses a cheque drawn on an account in the name of a third party (for example, a building society cheque or banker's draft), the Applicant should:

- (a) write the name and address of the person named on the Application Form (or, where several persons are named, one of such persons) or, as the case may be, the name of the person named in Box H (where applicable) on the Application Form on the back of the cheque, building society cheque or banker's draft and, in the case of an individual, his or her date of birth;
- (b) if a building society cheque or banker's draft is used, ask the building society or bank to endorse on the reverse of the cheque or banker's draft the full name and account number of the person whose building society or bank account is being debited by the cheque or banker's draft and add its stamp; and
- (c) if the Applicant is making the application as agent for one or more persons, indicate on the Application Form whether the Applicant is a person or institution (e.g. a bank or broker) required to comply with the EC Money Laundering Directive (no. 91/308/EEC) or subject to the Money Laundering Regulations 1993 and specify the Applicant's status. If the Applicant is not such a person or institution, the Applicant should contact Computershare Services PLC, PO Box 859, The Pavilions, Bridgwater Road, Bristol BS99 1XZ.

If the Applicant delivers the Application Form personally and the accompanying payment is not the Applicant's own cheque, the Applicant should ensure that the Applicant has with him or her evidence of his or her identity bearing his or her photograph (e.g., his or her passport). In any event, if it appears to Computershare Services PLC that an applicant is acting on behalf of some other person, further verification of the identity of any person on whose behalf the Applicant appears to be acting may be required.

By lodging an Application Form, each Applicant undertakes to provide such evidence of identity, at the time of lodging the Application Form, as may be necessary to ensure compliance with the Money Laundering Regulations 1993. Return of a completed Application Form with the appropriate remittance by an Applicant will constitute a warranty from such Applicant that the Money Laundering Regulations 1993 will not be breached by acceptance of the remittance.

Computershare Services PLC is entitled, in its absolute discretion, to determine whether the verification of identity requirements apply to any applicant and whether such requirements have been satisfied. Neither Computershare Services PLC nor the Company nor Charles Stanley shall be responsible or liable to any person for any loss or damage suffered as a result of the exercise of their discretion hereunder or as a result of any sale of relevant shares.

In relation to any application in respect of which the necessary verification of the identity of the Applicant or the person on whose behalf the Applicant appears to be acting has not been received on or before 3.00 pm on 19 October 2000 (or such later time and date as the Company and Charles Stanley may, in their absolute discretion, determine) the Company and Charles Stanley may, in their absolute discretion, elect to treat the relevant application as invalid and/or delay the allotment of the relevant number of New Ordinary Shares until the necessary verification has been provided. If any application is treated as invalid the money paid in respect of the relevant application will be returned (without interest) to the account at the drawee bank or building society from which such moneys were originally debited (but without prejudice to any rights Affinity may have to take proceedings to recover any loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid).

5. Payment

All payments must be made by cheque or banker's draft in pounds sterling drawn on an account at a branch in the United Kingdom, the Channel Islands or the Isle of Man of a bank or building society which is either a settlement member of the Cheque & Credit Clearing Company Limited or of the CHAPS Clearing Company Limited, or which has arranged for its cheques and banker's drafts to be cleared through the clearing facilities provided for members of either of those companies, and must bear the appropriate sort code number in the top right-hand corner. Any application which does not comply with these requirements will be treated as invalid.

Cheques or banker's drafts should be made payable to "The Royal Bank of Scotland plc A/C "Affinity"" and should be crossed "A/c payee only". Eurocheques, unless drawn on an account at a branch in the United Kingdom, the Channel Islands or the Isle of Man of a bank, will not be accepted. Any interest earned on payments made before they are due will be retained for the benefit of the Company.

The Company reserves the right to have cheques or banker's drafts presented on receipt and to instruct Computershare Services PLC to seek special clearance of cheques or banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity. Any person returning an Application Form with a remittance in the form of a cheque or banker's draft thereby warrants that the cheque or banker's draft will be honoured on first presentation. If cheques or banker's drafts are presented for payment before the conditions of the Open Offer are fulfilled, the monies will be kept in a separate bank account until such conditions are fully met. In the event that the Placing and Open Offer do not become unconditional by 8.00 am on 24 October 2000 or such later time and date as the Company and Charles Stanley may agree, the Open Offer will lapse and all application monies will be returned to applicants without interest as soon as reasonably practicable thereafter. The interest earned on monies held in the separate bank account will be retained for the benefit of the Company.

All documents or remittances sent by an applicant (or as he or she may direct) or to an applicant will be sent through the post at his or her own risk.

The Company and Charles Stanley may (in their sole discretion) treat an application as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions.

All enquiries in connection with the procedure for applications and completion of the Application Form should be addressed to Computershare Services PLC, PO Box 859, The Pavilions, Bristol BS99 1XZ.

If you do not wish to apply for the New Ordinary Shares under the Open Offer, you should take no action and should not complete or return the Application Form.

6. Taxation

The attention of Shareholders is drawn to paragraph 6 of Part 10 of this document. Shareholders who are in any doubt as to their tax position should consult their professional advisers immediately.

7. Overseas shareholders

(a) General

The offer by way of Open Offer to Qualifying Shareholders who are resident in, or citizens of, countries outside the United Kingdom may be affected by the laws of the relevant jurisdictions. Such persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to subscribe for their New Ordinary Shares.

No person receiving this document and/or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her and such Application Form could lawfully be used without contravention of any unfulfilled registration or other legal or regulatory requirements. Receipt of this document or an Application Form will not constitute an offer in those territories in which it would be unlawful to make such an offer, and this document is not to be copied or redistributed in such territories and this document is sent to such persons solely for the purpose of giving notice of the Extraordinary General Meeting.

Accordingly, persons receiving this document and/or an Application Form in connection with the Open Offer should not distribute or send the same into any jurisdiction where to do so would or might contravene local securities laws or regulations. Any person who does forward this document or an Application Form into such territory (whether pursuant to a contractual or legal obligation or otherwise) must draw the recipient's attention to the contents of this paragraph.

Any person who is not resident in, or who has a registered address outside, the United Kingdom wishing to accept the offer of New Ordinary Shares comprised in an Application Form must satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territory. If you are in any doubt as to your position, you should consult your professional adviser.

The Company and Charles Stanley reserve the right to treat as invalid any application or purported application for New Ordinary Shares comprised in an Application Form which appears to the Company, Charles Stanley or their respective agents to have been executed, effected or despatched in a manner which may involve a breach of the securities laws or regulations of any jurisdiction.

(b) United States of America and Canada

Neither the New Ordinary Shares nor this document nor the Application Form relating to the Open Offer have been or will be registered under the United States Securities Act of 1933 (as amended), the laws of any state of the United States or the relevant Canadian securities laws, and, therefore, except in a transaction which is exempt under such legislation, the New Ordinary Shares are not being and may not be directly or indirectly offered for subscription or sale, taken up, sold, re-sold, delivered, renounced, or transferred in or into the United States or Canada or to or for the benefit of any US persons or residents of Canada. Application Forms will therefore not be sent to Shareholders who have registered addresses in the United States or Canada. Application under an Application Form will constitute a representation and warranty that, *inter alia*, the Shareholder is not a US person or resident of Canada.

For the purposes of this document "United States" means the United States of America, each state thereof (including the District of Columbia), its territories, possessions and all areas subject to its jurisdictions; "Canada" means Canada and each province thereof; "US person" has the meaning given in Regulation S promulgated under the United States Securities Act of 1933 (as amended); and "resident of Canada" means a citizen, national or resident of Canada, the estate of any such person, a partnership, corporation or other entity created or organised in or under the laws of Canada, or any estate or trust, the income of which is liable to Canadian income tax regardless of its source.

(c) Australia

No document in relation to the New Ordinary Shares has been or will be lodged with, or registered by, the Australian Securities Commission. The New Ordinary Shares are not being nor may be offered for subscription or purchase, nor may any invitation to subscribe for or buy or sell New Ordinary Shares be issued or any draft or definitive document in relation to any such offer, sale or invitation be distributed, in or into Australia or to or for the account or benefit of any resident of Australia. Accordingly, the Open Offer will not be made to Shareholders in, or residents of, Australia.

(d) *Republic of Ireland*

Due to restrictions imposed by Irish law, neither this document nor the Application Form are being sent to any Shareholder with a registered address in the Republic of Ireland who has not supplied an address to the Company within the United Kingdom for the service of notices. Accordingly, the Open Offer will not be made to Shareholders in the Republic of Ireland.

(e) *Japan*

No prospectus in relation to the New Ordinary Shares has been or will be lodged with or registered by the Japanese Ministry of Finance and no steps have been taken to enable the New Ordinary Shares to be offered, sold, accepted or otherwise delivered in Japan, its territories and possessions and any areas subject to its jurisdiction ("Japan") in compliance with applicable laws of Japan. The New Ordinary Shares may, therefore, not be offered, sold, accepted or otherwise delivered, directly or indirectly, within Japan. The Open Offer is not being made in Japan. Neither the Application Form nor the New Ordinary Shares have been or will be available for subscription or purchase by any person resident in Japan. Holders of existing Ordinary Shares with registered addresses in Japan will not be Qualifying Shareholders and an Application Form will not be sent to such persons.

(f) *Other overseas territories*

Qualifying Shareholders resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other legal requirements to enable them to apply for their New Ordinary Shares.

8. Settlements and dealings

The result of the Open Offer is expected to be announced on 23 October 2000. Application has been made to the UK Listing Authority for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on the London Stock Exchange. Subject to the Open Offer becoming unconditional in all respects, it is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence on 24 October 2000 for normal rolling settlement.

The Company's existing Ordinary Shares are already admitted to CREST. Accordingly, no further application for admission to CREST is required for the New Ordinary Shares, all of which, when issued and fully paid, may be held and transferred by means of CREST.

Subject to the conditions of the Open Offer being satisfied or waived, all New Ordinary Shares to be issued in uncertificated form are expected to be credited to the appropriate CREST stock accounts on 24 October 2000, unless the Company exercises the right to issue such New Ordinary Shares in certificated form, in which case definitive certificates are expected to be despatched by post on or before 7 November 2000. Subject as aforesaid, definitive certificates for the New Ordinary Shares to be issued in certificated form are expected to be despatched by post on or before 7 November 2000. No temporary documents of title will be issued. Pending despatch of definitive share certificates, transfers of the New Ordinary Shares by Qualifying Shareholders not in CREST will be certified against the share register held by the Registrars. All documents or remittances sent by or to an applicant (or his agent, as appropriate) will (in the latter case) be sent through the post and will (in both cases) be at the risk of the applicant. Qualifying Shareholders in CREST should note that they will be sent no confirmation of the credit of the New Ordinary Shares to their CREST stock account nor any other written communication by the Company in respect of the issue of the New Ordinary Shares.

9. Further information

Your attention is drawn to the further information set out in this document and to the terms and conditions set out in the accompanying Application Form.

Yours faithfully,

M R I Lilwall
Director

for and on behalf of Charles Stanley & Company Limited

PART 3

RISK FACTORS

Investing in the Company's shares involves a high degree of risk. Potential investors should carefully consider the risks and the other information contained in this document before they decide to invest in the Company's shares. *The trading price of the Company's shares could decline due to any of these risks, and investors could lose all or part of their investment.* Potential investors should note that the risks described below are not the only risks the Company faces. This document describes only the risks the Board considers to be material. However, there may be additional risks that the Board currently considers not to be material or of which the Board is not presently aware.

If any of the following risks were to materialise, the Company's business, financial condition and results of operations could be materially adversely affected.

The Group is loss making and is expected to continue to incur operating losses

The Group continues to be loss making. During the year to 31 December 1999, the Group reported a consolidated pre-tax loss of £9.172 million. This figure includes a charge of £3.113 million under UITF 17 relating to the difference between the market value of, and the price paid for, shares offered to staff as part of the fundraising at the end of 1999. During the three months to 31 March 2000, the Group reported a consolidated operating loss of £3.008 million. During the six months to 30 June 2000, the Group reported a consolidated operating loss of £7.001 million.

If the Group's revenues do not increase substantially or if its expenses increase more than the Directors expect, the Group will not be profitable. Given the expenses envisaged to develop the business further, particularly promoting revenues from e-commerce, advertising and international expansion, the Directors expect that the Group will not be profitable for the foreseeable future.

The Group's future cash flow is difficult to forecast

In terms of the Group's anticipated cash inflows and outflows over the next two years, the Board believes that accurately forecasting these cashflows is extremely difficult, principally as a result of the Group's limited operating history and the emerging nature of many of the markets in which Affinity either currently operates or is developing a presence. In particular, as set out in more detail in Part 4 of this document, VIP is moving from reliance on the interconnect revenue model with the introduction of the unmetered access subscription model. Although the Board firmly believes that this transition should be a positive development for the Group, there is inevitably some uncertainty as to the exact nature of its impact on the Group's operating cashflows over the next two years. In addition, a number of initiatives by TCS, EGO Maniacs, TAXI and TransAffinity are at an early stage of development, giving rise to uncertainty about their contribution to the Group's operating cashflows over the next two years.

The Group's growth strategy may not be realised if management resources are not available

The Group is currently undergoing a period of significant expansion in terms of its scope of operations, range of products and services, number of employees and infrastructure. The Board expects that further significant expansion will be required for the Group to exploit potential opportunities. This expansion has placed, and the Board expects it to continue to place, a significant demand on the Group's management and operational resources. The Group's future success is dependent on its ability to manage this growth and to continue to recruit suitable personnel to accommodate its business expansion. If the Group fails to attract, hire or retain the necessary personnel the business of the Group is likely to suffer.

The Group is dependent on key personnel

The Group's future performance will depend heavily on its ability to attract, retain and motivate senior personnel. The Group is particularly dependent on the executive directors, whose names appear on page 3 of this document. The loss of the services of the Group's key personnel could have a material adverse effect on the business. The Group has sought to mitigate this risk by the provision of suitable incentives, including the Share Option Schemes.

The Group's infrastructure needs to expand to accommodate the expected growth of the business

The Group's revenues are dependent on, *inter alia*, the availability and volume of usage of its services. Accordingly, the performance and reliability of the Group's systems and network, and the Group's and third parties' infrastructure, are critical to the Group's reputation and ability to attract and retain clients and end-users. A systems or network failure in the future could disrupt the operation of the Group's business. Interruptions to, or slow speeds of access to, the Group's services will reduce its revenues and potential profitability. Frequent or persistent systems failures may permanently harm the Group's reputation.

The Group is dependent on third party technologies and services

The markets in which the Group operates are subject to rapid and significant changes in technology and services. The Company has no control over whether and when such technology and services will be developed or enhanced or for how long they will continue to be supported. The Group is dependent on third party technology and services to run its business. The Group is particularly dependent on its relationships and contracts with ICL, Cable & Wireless, Clientlogic, Cisco and COLT. Refusal by any of these strategic partners or other third party suppliers to continue to license or support the technology or services required by the Group's business would cause a delay in operations, and possibly affect revenue streams, as replacement suppliers were selected and integrated into the operations. In the ordinary course of business, the Group may also need to implement new technologies at a substantial cost to remain competitive. A proportion of these new technologies may prove unprofitable, inadequate or incompatible with the technologies of some or all of the Group's customers or suppliers.

The success of the Group's further international expansion depends on, *inter alia*, the Group being able to extend its existing strategic partnerships or create new strategic partnerships, or to extend its existing third party supplier partnerships or create new third party supplier partnerships. In particular, the Group may need to establish partnerships with local telecommunications service providers on a country-by-country basis. Where countries have heavily regulated telecommunications markets, any subsequent inability to agree such partnerships on suitable terms may adversely affect the Group's revenues and potential profitability.

The Group operates in highly competitive and evolving markets

The markets in which the Group operates are rapidly evolving and it is likely that competition in the UK and elsewhere will increase further and may include competition from businesses which have much greater capital resources than the Group and which are able to provide other services. In addition the development of new technologies could also give rise to significant new competitors. As a result of this competition, the Group's client base, end-user base, content sales, connectivity, e-commerce activity and promotional sales may be materially and adversely affected.

There are minimal barriers to entry in many of the markets in which the Group operates and current and new competitors can launch new services at a relatively low cost within relatively short time periods. Accordingly, the Board expects competition to continue and intensify and the number of competitors to increase in the future. Examples of the Group's existing competitors in its major markets are set out in Part 4 of this document.

The Group is dependent on the growth and acceptance of the Internet and other platforms

The Group's future revenues and profits are dependent upon, *inter alia*, the continued growth and acceptance of the Internet. The rate of that growth may not be in line with the Board's expectations. In particular, the Internet may not prove to be a viable commercial marketplace if it suffers from a lack of acceptable security technologies, congestion of traffic, inconsistency of service, lack of development of the necessary infrastructure, excessive governmental regulation, uncertainty regarding intellectual property ownership or delays in the development and commercialisation of performance improvements. Conversely, if Internet and mobile telecommunications use does continue to grow significantly, the Internet and mobile telecommunications infrastructure may not be able to support the demands placed upon it by such growth and the performance or reliability of the Internet may be adversely affected.

The Group is currently dependent on a relatively small number of clients

Although the Group continues to grow the number of its clients, Affinity's existing revenues remain dependent on a relatively small number of such clients. The Group's ability to reduce this dependency

depends on its success at increasing both the number of clients and the number of registered accounts, particularly 28 day active accounts and 60 day active accounts, for such clients. Such initiatives may require significant additional expenditure on sales and marketing, which may adversely affect the Group's potential profitability.

The Group is potentially vulnerable to the move towards unmetered Internet access packages

During the year to 31 December 1999, 65 per cent. of the Group's consolidated turnover was accounted for by interconnect revenues. During the six months ended 30 June 2000, 70 per cent. of the Group's consolidated turnover (including its share of income from joint ventures) was accounted for by such revenues. With the continued growth in popularity of unmetered Internet access packages in the UK and other markets, interconnect revenues are expected to come under increasing pressure. The ability of Affinity to grow overall revenues against this background will depend increasingly on the generation of subscription, advertising, e-commerce, convergent billing, helpdesk and other non-interconnect revenues. To date, some of these potential sources have generated minimal revenues for the Group and remain commercially unproven.

The Group may decide to change aspects of the Group's business strategy in the future

There is no guarantee that the Group will become profitable by following its business strategy set out in Part 4 of this document. Additionally, the Board's ability to implement the Group's business strategy successfully may be adversely affected by unforeseen costs and expenses, technological change and economic downturn and other facts that the Board cannot currently foresee. Consequently the Board may decide to change aspects of the business strategy.

The Group's quarterly financial results are likely to be volatile

Because Affinity is applying to be admitted to the Official List under Chapter 25 of the Listing Rules, the Group will be required to report quarterly financial data, including the categories of non-financial operating data set out in paragraph 3 of Part 1 of this document, together with such other categories of non-financial operating data as may become relevant as the scale and mix of the underlying business develops over time.

These quarterly results will be affected by a variety of factors as the Group continues to build its branded services, implement its international expansion strategy and develop in new business areas. In particular, some of the costs associated with these projects are directly linked to the level of take-up of the Group's services in new areas and, as such, may be partially or entirely out of the Group's control.

In addition, as a result of the Group's limited operating history and the emerging nature of the markets for its products and services, it is difficult for the Group to forecast its financial performance accurately. In particular, the Group may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in turnover. Accordingly, any significant shortfall in turnover relative to the Group's planned expenditures would have an immediate adverse effect on its business, results of operations and financial condition.

The Group's legal and regulatory environment is uncertain

The global legal and regulatory environment governing many of the markets in which the Group operates is uncertain and evolving. In particular, it is possible that the application of existing laws and regulations, legal claims and new laws and regulations relating to the Internet, including regulations relating to betting and gaming, broadcasting, content, competition, ISP liability and e-commerce liability, may have an adverse effect on the Group's business, financial condition and operating results.

Regulation of the Internet is evolving

There is no specific regulator for the Internet. However, there are many applicable laws relating to the provision of Internet services and use of the Internet and Internet-related applications. The enforcement of these laws may fall within the powers and duties of a number of regulatory bodies. The application of some of these laws to the Internet is currently being clarified and refined and there are a number of new legislative and regulatory proposals, for instance, in the European Union. The issues in the main areas affecting the Group's business are set out below.

The Group may be vulnerable to further tightening of data protection legislation

Data protection and privacy laws in relation to the Internet may restrict the collection and use of personal data and, therefore, may impact adversely upon the Group's ability to generate advertising revenue. Given the global nature of the Internet, there can be no assurance that businesses such as that of the Group will be able to comply with laws relating to transfers of data outside the EU (which are prohibited unless the territory maintains adequate privacy standards) or use of cookies or with local law generally.

Compromises and breaches of security are possible and this may have a material adverse effect on the Group's reputation and therefore materially affect the Group's business. In addition, well publicised security breaches may affect consumer confidence in the Internet in general or the Group in particular.

Regulation of Internet content may be tightened

There is no specific regulation of Internet content as such. However, the provision of content on the Internet may fall within generally applicable legislation in EU and other jurisdictions. For example, general advertising laws and regulations apply to advertising on the Internet in the same way as advertising by way of other media. Laws in relation to discrimination with respect to sex, race and colour, and to obscene publications and defamation, may result in limitations on the type of content (including advertisements) available on web-sites or increased liability for information carried on web-sites.

The Group is potentially exposed to Internet jurisdictional issues

Due to the global nature of the Internet, it is possible that, although the servers and infrastructure used to provide the Group's services are based in the United Kingdom, Australia, the Netherlands and Finland and the content which the Group transmits over the Internet originates primarily in the UK, the governmental or other authorities of other countries, as well as these, might attempt to regulate this content or prosecute members of the Group for violations of their laws. As the Group's content is available over the Internet all around the world, the Group may be required to qualify to do business in certain jurisdictions or notify certain governmental or other authorities of its activities, including, for example, those activities relating to the collection and processing of user data.

The Group's international expansion may be unsuccessful

One element of the Group's strategy is to expand further its operations both within and outside the UK through acquisition of, and investment in, complementary businesses and technologies or via entry into co-branding relationships. These may involve difficulties associated with integrating operations and products, entering new geographic or product markets with limited or no prior experience and the risk of management's attention being diverted from other business concerns. It is also not certain that the Group will be able to address successfully any cultural differences between companies or businesses which it may acquire or invest in both within and outside the UK in areas such as management style, work environment and corporate strategy. Additionally such acquisitions or investments, if they occur, may have a dilutive effect for existing shareholders and, whether they are paid for in cash or shares, may negatively affect the Company's share price.

Internet security issues could restrict the Group's growth

The Group's business may be affected by problems caused by computer viruses, security breaches and other inappropriate uses of its web-site. If compromises or breaches of security were to occur they could deter people from using the Internet or from using it to conduct transactions that involve transmitting confidential information. This could have a material adverse effect on the Group's reputation with consequent impact upon user loyalty. The Group may incur significant costs in protecting itself against the threat of security breaches or alleviating problems caused by such breaches. In addition, alleviating these problems may cause interruptions, delays or cessations in service to its end-users, which could cause them to stop using the Group's service or assert claims against the Group.

The market for Internet advertising is unproven

The Group expects to derive a part of its future revenue from Internet advertising. However, the demand and market acceptance for Internet advertising is uncertain. There are currently no standards for the measurement of the effectiveness of Internet advertising, and the industry may need to develop such

standards to support and promote Internet advertising as a significant medium. If such standards do not develop, existing advertisers may not continue their levels of Internet advertising. Furthermore, advertisers that have traditionally relied upon other advertising media may be reluctant to advertise on the Internet. The Group's business, financial condition and operating results would be adversely affected if the market for Internet advertising fails to develop or develops more slowly than expected.

The Board believes that the number of Internet companies relying on web-based advertising revenue will increase greatly in the future. Accordingly, it is likely that the Group will face increased competition resulting in increased pricing pressures on its advertising rates which could in turn have a material adverse effect on its business, financial condition and operating results. The Group competes for advertising with traditional forms of media such as newspapers, magazines, radio and television.

The Company's share price is likely to continue to be volatile

The price of the Company's Ordinary Shares has been volatile since they were admitted to trading on AIM. The price of the Ordinary Shares may be subject to continuing volatility following Admission, in terms of price and volume traded, and this volatility may be unrelated to the operating performance of the Group. The stock market has from time to time experienced significant price and volume fluctuations which have particularly affected the market prices of shares of Internet sector companies.

Additionally, the Group's financial, operating and non-operating results and prospects may, from time to time, be below the expectations of research analysts and investors, which could also result in material fluctuations in the price of the Company's Ordinary Shares. For example, prospective investors should be aware that the data shown on page 6 and page 38 in respect of 31 December 2001 are based on the Directors' best estimates and that the actual data may differ materially from the expected range shown.

PART 4

BUSINESS DEVELOPMENT AND PROSPECTS

1. Introduction

Trading in the Ordinary Shares on AIM commenced on 20 April 1999. At that time Affinity had only one active subsidiary, VIP, a creator of branded virtual ISPs for corporate clients and other organisations. Although VIP has continued to grow strongly, with successive quarterly increases in both numbers of clients and 28 day active accounts and 60 day active accounts, the Group has also moved into a number of related business areas. These areas include branded telecommunications, convergent billing, e-commerce and online entertainment. The Group has also begun to expand internationally, establishing a presence in the Netherlands and Australia. Expansion into Scandinavia and South Africa is expected before the end of 2000.

Through organic growth, acquisitions or joint ventures Affinity is currently active in, or is developing a presence in, the following business areas:

- Branded Internet services
- Branded telecommunications and convergent billing
- Online entertainment
- E-commerce.

2. Overview of activities

Branded Internet services

Through VIP, a wholly-owned subsidiary of the Company, the Group provides corporate clients and other organisations with branded Internet access for their end-users. The Group's clients include Tiny Computers, Powergen, Egg, Arsenal Football Club, Reed Business Information and the Royal Bank of Scotland.

Branded telecommunications and convergent billing

Through TCS, a 50 per cent. owned joint venture with Powergen, the Group acts as a switchless telecommunications reseller, offering branded telecommunications for both data and voice traffic. TCS has developed a convergent billing system in conjunction with Unisys, designed ultimately to allow end-users to have one bill for a range of utility services.

Online entertainment

Through EGO Maniacs, a wholly-owned subsidiary of the Company, the Group is active in the distribution of online games and the provision of related services online.

E-commerce

Through TAXI, a wholly-owned subsidiary of the Company, the Group provides an online shopping guide linked to approximately 600 e-commerce sites, allowing end-users to make broad product and price comparisons. The Group is also active in the e-commerce market through a number of VIP content agreements with various e-commerce participants.

3. Strategic objectives and milestones

In planning the future growth and development of the Group, the Board's strategic objective is for Affinity to achieve strong market positions in each of the four business areas in which it operates. The Board believes that by such positioning Affinity will eventually be able to generate the level of revenues required to move the Group into profitability and create sustainable value for Shareholders. In terms of the Board's specific objectives and future milestones, the current priority areas are set out below:

Increase VIP's active end-user base

VIP has had more than 140 brand launches and as at 30 June 2000 had 964,223 registered accounts, of which 391,116 were 60 day active accounts. In order to build further on this existing base, the Group is developing content and consumer applications for VIP's client sites with the aim of increasing VIP's registered accounts to between 1,260,000 and 1,675,000, and 60 day active accounts to between 595,000 and 790,000, by the end of December 2001. During the past year, various content deals have been agreed such as those relating to Sportingbet.com, Desktop Lawyer and TheStreet.co.uk. Online shopping malls have also been made available to users of these sites. In addition, VIP will increasingly source content for these sites from both EGO Maniacs and TAXI, the Group's online games and e-commerce subsidiaries.

The Group is looking to improve its own internal sales and marketing function by recruiting more sales and marketing staff and the additional resources required to support them. The Group expects to recruit a further 40 sales and marketing staff in the remainder of 2000 and during 2001.

Affinity has a joint venture with Trans National, a company involved in affinity credit cards (cards which are issued under the name of clubs, societies and professional bodies to their members) with links to over 500 non-commercial organisations in the UK and a continued membership of over 22 million individuals in the UK. Affinity has invested £2.5 million in this joint venture, pursuant to the relevant joint venture agreement, and a further £4 million which it was not committed to invest. The joint venture company, which has been named TransAffinity, will provide branded Internet access, fixed and mobile telephony, branded financial services and e-commerce services to and on behalf of members of affinity groups, such as clubs, societies and professional bodies.

Increase non-interconnect revenues of VIP and the wider Group

During the six months ended 30 June 2000, interconnect revenues accounted for £3.2 million, or approximately 87 per cent. of VIP's total revenues. The Board will seek to grow revenues from other sources, particularly from unmetered access packages.

VIP has been in discussions regarding the provision of unmetered access packages for its clients, including packages which link such access to the purchase of a minimum level of voice telephony calls. In the UK, VIP is currently offering such packages to end-users of Tiny Computers. The Group also announced in May 2000 the introduction of an unmetered access package in conjunction with BT SurfTime, which is now available to VIP clients. The Board believes that through these packages VIP will generate a higher recurring revenue base while remaining at the competitive forefront of the Internet access market. Unmetered access models are still in the early days of establishing a presence in the market place but the Board believes that by the end of the first quarter of 2001 25 per cent. of VIP's existing and new registered accounts will be using unmetered access.

The Board intends to promote additional sources of revenue which have historically made minimal or no contribution to the Group's turnover. The Board will seek to derive commissions from e-commerce transactions, online games and advertising. TAXI has commenced a £1.5 million marketing programme to increase brand awareness and to increase the number of commission-generating affiliated e-commerce web-sites, with the aim of signing up 40 per cent. of featured sites to affiliated status by the end of the current year.

EGO Maniacs has invested in a team of specialist games-orientated staff and is targeting revenues particularly from the provision of support services to the online community and licence fees from the introduction of bespoke games services. The Board believes that the EGO Maniacs service can achieve the target of doubling its revenues from community services and selling two licences for bespoke games services and the target range of 50,000 to 75,000 registered users by the end of 2001.

Although the Group's advertising revenues to date have been minimal, the Board sees them as an area of potential growth and is reviewing possible advertising partnerships or joint ventures. The Board believes that the end-users of the Group's clients form distinct advertising audiences, and that, as a result, VIP and

the wider Group have the potential to generate revenues from both banner and profiled advertising. The Group has set itself a target for both VIP and TAXI to have advertising-generated revenue streams by the end of 2000. The Board believes that by the end of 2002 approximately 5 per cent. of VIP revenues and 40 per cent. of TAXI revenues will be generated from advertising. The Group has set TAXI a target of achieving in the range of 300,000 to 360,000 registered users by the end of 2001.

Further the Group's international expansion

In order to build upon the growth achieved to date in Affinity's core UK market, the Group has already begun to establish operations internationally. The Group currently offers branded Internet access to clients and their end-users in The Netherlands. In time, it is expected that this will be followed by a broader range of related products, including e-commerce and online entertainment. In addition, the Group has a presence in the Australian market through a 25 per cent. minority holding in Affinity Australia, a branded Internet access provider 75 per cent. controlled by Australia.com. Affinity holds 6.2 per cent. of the issued share capital of Australia.com.

In order to reduce the associated investment burden, this expansion is expected to take the form of a hub-and-spoke strategy with two major European regional centres already identified: the Netherlands and Finland. Under current plans, the Group is targeting Scandinavia and South Africa during the remainder of 2000. Affinity establishes partnerships with local telecommunications service providers on a country-by-country basis. The Board believes that approximately £15 million will be required to support international expansion over the next two years.

Deployment of the TCS convergent billing system

TCS, the Group's 50 per cent. owned joint venture with Powergen, has developed a convergent billing system in conjunction with Unisys. The contract for the provision of this system was made between TCS and Unisys and is not affected by the joint venture between Affinity and Powergen concerning the ownership and control of TCS. TCS intends using this system to graduate from being a switchless telecommunications reseller into a customer care and relationship management service provider. The system has been designed as a fully convergent system, allowing the bundling of a number of services onto a single invoice. The billing system has been designed so as to be flexible enough to handle fixed and mobile telephony, Internet services and various other billing services such as gas, electricity, on-line shopping, video-on-demand and music download. Over the next two years, the Board believes that approximately £1.6 million will be required to support the Group's share of the costs of deploying the TCS convergent billing system. The Group has set TCS the target of achieving in the range of 185,000 to 235,000 registered users (as defined in the contract between TCS and Unisys) by the end of 2001. The Board believes that this billing system will be an important factor in achieving the Group's target range of 185,000 to 235,000 registered users by the end of 2001.

Develop an effective mobile and m-commerce access platform

The Board believes that mobile technology has the potential to affect the way in which people access and use the Internet, with traditional PCs becoming only one of a range of options available to end-users as the medium for accessing the Internet. As a result the Board sees the development by VIP and the wider Group of an effective mobile/wireless strategy as an important element of Affinity's future successful development. The Board believes that companies which only offer ISP services linked to personal computers will struggle to compete and grow in the future.

Affinity concluded a contract with Vodafone Limited on 14 June 2000 to source and manage relevant content, applications and games services for use on Vodafone interactive services across Europe. The content that Affinity will provide to Vodafone interactive customers will allow them to browse a range of WAP specific content supplied by VIP, EGO Maniacs and TAXI. Whilst contractual arrangements are in place between the Company and Vodafone Limited, the full scope and extent of the relationship between the Group and Vodafone is still evolving.

To extend its sphere of influence within the mobile sector VIP has been accepted as an "independent service provider" by BT Cellnet and Vodafone. This will enable VIP to offer branded mobile services and bespoke mobile tariffs to its clients. The Board expects this to assist VIP to secure market share and thereby allow VIP to sell new products that will become available with the arrival of GPRS and so-called "third generation" mobile technologies.

The Group also intends to develop, through ICL, an effective m-commerce platform, which in conjunction with TCS's billing platform is intended to position the Group as a provider of integrated wireless services.

The Board is confident that, having secured mobile "independent service provider" status with BT Cellnet and Vodafone, the Group will, by the end of the year, be able to secure the delivery of mobile services to its clients. The Board believes that, by working closely with ICL and Vodafone, the Group will complete and bring into service an m-commerce platform during 2001. The Board further believes that approximately £4.53 million will be required over the next two years to support the development of an m-commerce access platform.

4. Branded Internet services

(a) Overview

Affinity's branded Internet service activities are operated through VIP, which was incorporated in July 1997. VIP acts as a branded Internet service provider, allowing its clients, which are typically companies or other organisations with strong brand recognition, to make available Internet access to their customers without the need for either substantial capital investment or specialist in-house technical staff.

In order to be able to provide this service to its clients, VIP operates through strategic relationships with a number of leading industry suppliers, including ICL, Cable & Wireless, Clientlogic, Cisco and COLT. These relationships provide VIP and the wider Group with access to telecommunications services, helpdesk facilities and network hardware and software. The Board believes that outsourcing these functions involves less proprietary risk and a lower financial investment for VIP and the Group than would be the case if the technical platform were developed internally.

(b) Products

VIP provides Internet access in a way which allows different clients to operate under their own brands from a single generic system. The platform allows such clients to add value to their brand by offering their end-users branded Internet access together with content such as news, product updates and e-commerce opportunities. Branded Internet access offers end-users a familiar access point to the Internet. The browser used in relation to this system is Microsoft Internet Explorer. The browser has been hard-coded, in order to ensure that the end-user's first point of access to the Internet is the relevant client's home page.

The company's policy is for the client to be responsible for all marketing and design costs, as well as the cost of CD-ROM replication, with VIP project managing the entire process. New client leads are generated through referrals from the company's strategic partners, particularly ICL, the internal VIP sales team and a network of value-added resellers.

(c) Revenues

Since the early stages of its development, VIP's revenue base has been largely composed of a combination of end-user subscriptions, helpdesk revenues and interconnect revenues, which are dependent upon the number of minutes end-users spend online and the time of day at which end-users use the service. In addition, other revenues are generated from CD-ROM replication services and certain consultancy services.

During the six months ended 30 June 2000, interconnect revenues accounted for £3.2 million, or approximately 87 per cent. of VIP's total revenues, and helpdesk revenues accounted for £232,000, or approximately 6 per cent. The remaining £246,000, or 7 per cent., was accounted for by CD-ROM replication services, consultancy services and other miscellaneous, largely non-recurring revenues.

(d) Competitors and prospects

The market for Internet access in the UK is highly competitive. A precise analysis remains difficult principally because of a lack of reliable statistics and the nature of many of the competitors. The Board believes that VIP has no exact competitor in terms of providing corporate clients with fully branded, Internet access.

VIP competes against other ISPs and Internet portals, such as Freeserve, T-Online, AOL, Yahoo, Alta Vista and NTL. The Board also considers it likely that VIP will face competition in the future from new entrants keen to carve out a niche in the market. Furthermore, the past few months have seen the emergence in the UK of unmetered access, with the announcement of the introduction of unmetered access packages by a number of players, notably Alta Vista and AOL. While Alta Vista has subsequently withdrawn its offer of unmetered access packages to the public, other companies are continuing to offer these packages.

Against this competitive background and the anticipated reduction in importance of interconnect revenues in the UK market, the Board remains confident that VIP will maintain and grow its market position and revenue base. In particular, the Board believes that VIP is unique in providing hard-coded Internet access, ensuring that the end-user's first point of access to the Internet is always the relevant client's home page. The Board believes that this differentiation will become increasingly important for the generation of targeted advertising and e-commerce revenues from client sites. In addition, as set out in paragraph 3 above, VIP is improving the attractiveness of its client sites through a broad range of third party content deals and through sourcing further e-commerce and online gaming content from EGO Maniacs and TAXI. The Group is also actively looking to improve its own internal sales and marketing function by recruiting more staff in order to be in a better position to exploit the new client leads provided by its principal strategic relationships. Finally, VIP is likely to benefit from the TransAffinity joint venture which is designed to target affinity groups, such as charities, trade unions, special interest groups and lifestyle organisations.

5. Branded telecommunications and convergent billing

(a) Overview

The Board decided in early 1999 to expand into branded telecommunications services, using the Group's existing knowledge base, strategic partnerships and client relationships. On 15 July 1999 Affinity announced the formation of a new wholly-owned subsidiary, TCS, to pursue this expansion strategy.

In order for the Group to be able to provide a telecommunications billing service, Affinity acquired Brightfibre, a small UK switchless telecommunications reseller, in 1999. The consideration was satisfied by the issue of 24,390 Ordinary Shares. The acquisition provided the Group with the basic billing platform and additional specialist knowledge base required to initiate its expansion into branded telecommunications. Following the acquisition of Brightfibre, its business was absorbed into TCS.

In February 2000, Affinity sold half of the share capital of TCS to Powergen for an initial consideration of £5 million in cash. Affinity is entitled to receive two further payments of £2.5 million each from Powergen on the achievement by TCS of agreed targets for the acquisition of new clients. The sale was completed on 25 February 2000 and, on that date, Affinity, Powergen and TCS entered into a joint venture agreement for the further development of TCS. Under this agreement, TCS will offer energy and telecommunications services to existing clients of Powergen and VIP as well as new clients identified by TCS.

TCS has developed a convergent billing system in conjunction with Unisys, designed to allow users to have one bill for a range of utility services. Further information regarding this project is set out in paragraph 3 above.

(b) Products

TCS currently acts as a telecommunications for both data and voice traffic. Switchless telecommunications resellers generate revenues by signing contracts with telephone users for the provision of telecommunications minutes. Through agreements with carrier telecommunications companies such as Cable & Wireless and COLT, switchless telecommunications resellers obtain telecommunications minutes on a wholesale basis and at wholesale rates. Margins are achieved by selling telecommunications minutes to telephone users at a rate in excess of the wholesale rate offered by the carrier telecommunications companies.

Switchless telecommunications reseller, offering branded telecommunications minutes for both data and voice traffic. Switchless telecommunications resellers sign contracts with telephone users for the provision of telecommunications minutes. Through agreements with carrier telecommunications companies such as Cable & Wireless and COLT, switchless telecommunications resellers obtain telecommunications minutes on a wholesale basis and at wholesale rates. Margins are achieved by selling telecommunications minutes to telephone users at a rate in excess of the wholesale rate offered by the carrier telecommunications companies.

(c) Revenues

TCS's revenues as a switchless telecommunications reseller derive from the resale of telecommunications minutes to users of voice and data services. During the six months ended 30 June 2000, the Group's share of TCS revenues was £409,000. TCS combines acting as a switchless telecommunications reseller with being a convergent billing agent. The Board expects that the mix of the company's revenues will change significantly. It is expected that TCS will increasingly generate revenues from commissions from the underlying suppliers of utility services. Commissions are received whether or not users pay their bills.

(d) Competitors and prospects

In its existing product offering, TCS competes against both the incumbent telecommunications operators, particularly BT and Cable & Wireless, as well as fixed line switchless telecommunications resellers such as First Telecom and Eurobell. The Board believes that TCS will be competitive in this sector by utilising users' affinity with household brand names in the same way in which the Group has experienced success with branded Internet access.

In the opinion of the Board, the market for convergent billing services in the UK remains underdeveloped at present, with no single market leader being readily identifiable. A number of potential competitors are believed to have been developing similar billing platforms. The Board expects that TCS will compete principally against two key categories of competitor, namely aggregated billing providers, such as Checkfree and Clear Money, and integrated utility providers, such as Centrica.

The Board believes that the strengths of the convergent billing system, once deployed by TCS, will be its strong brand appeal to telephone users, including opportunities for such users to participate in loyalty schemes based on spending patterns, its reduction in the number of bills received by users and the opportunity it will create for users to query bills over the Internet. The integration of different billing systems is also expected to create a range of cost savings, particularly relating to back office, helpdesk and marketing functions, which will be potentially available to be passed on to users in the form of savings on their combined bills.

6. Online entertainment

(a) Overview

Affinity initially gained experience of the online entertainment market through VIP, which offers games as value-added web-site content to a number of its clients. The Board believes the online entertainment market is poised for significant growth. To exploit the opportunities presented by this growth and to facilitate the expansion of the Group into the online entertainment market, Affinity formed a new wholly-owned subsidiary, EGO Maniacs, in 1999.

(b) Products

In order to build its position in the online entertainment market, EGO Maniacs has entered into certain partnerships and agreements. EGO Maniacs is supplying certain ancillary services to the online community, such as chat rooms and organised tournaments, for use with the Internet-capable Dreamcast console produced by Sega.

In late 1999, Affinity acquired Gameszone, an online games service (now restyled as Games Parlour), from ICL. Games Parlour is a family-orientated system consisting of a combination of single player and multi-player games, games news, review sections and a chat room. The service is made available to VIP clients as a brandable product, or as an EGO Maniacs product.

(c) Revenues

Revenues from EGO Maniacs are historically insignificant in the context of the Group as a whole. During the six months ended 30 June 2000, EGO Maniacs generated £313,000 in revenues.

(d) Competitors and prospects

The Board is confident of the future growth of the online entertainment market. In particular, the emergence of broadband access is expected to allow high speed transfer of digital data over copper wire, cable, fibre optic networks, satellite and WAP. This will allow consumers to access console quality games that are currently neither commercially nor technically feasible over standard PC modems. The Board believes that as the major game console manufacturers make their next generation models Internet-enabled, a significant growth in demand could develop.

The online entertainment market can, in the view of the Board, be characterised as comprising two segments, namely casual games players and hard-core games players. The first of these segments accounts mostly for free-to-play games, which are often relatively unsophisticated but which have broad appeal and do not suffer from a lack of bandwidth. ISPs and portals such as AOL Games and MSN Zone include such games, in order to enhance the content of their web-sites. The second of these market segments accounts for considerably more sophisticated games, designed to attract dedicated games players who may be willing to pay a subscription for such content. The Board considers that both market segments are fragmented and no clear market leaders have emerged.

The Group has invested in a team of games-orientated staff, marketing and advertising initiatives and specialised games equipment to bring games players the response times the Group must deliver to remain competitive in the online entertainment market. Current initiatives include the development of games delivered by a WAP service and the continuous development of existing and new games services.

7. e-commerce

(a) Overview

To add to the content of VIP's clients' web-sites and to generate additional third party revenues, Affinity has acquired a presence in business-to-consumer (B2C) e-commerce. The majority of the Group's e-commerce activities are carried out through TAXI, a wholly-owned subsidiary of Affinity, acquired in January 2000 in a move to enhance its e-commerce activities. TAXI offers a personal online shopping guide, myTAXI, which is essentially a search engine to help the user find specific products and make price comparisons.

(b) Product

TAXI is currently linked to approximately 600 e-commerce sites, both in the UK and internationally. The service is fully brandable and offered free to all VIP corporate clients and for a fee to non-VIP clients. As well as providing end-users with a service, thereby increasing the potential value of the relevant client's web-site, TAXI has the ability to generate information about end-user shopping habits, giving the Group the potential for targeted advertising and e-commerce offerings. TAXI has a contract with Compaq Presario to include pre-loaded shopping software on Compaq Presario's PCs. As set out in paragraph 3 above, TAXI is rolling out a £1.5 million marketing programme to increase brand awareness and to increase the number of commission-generating affiliated e-commerce web-sites.

(c) Revenues

During the six months ended 30 June 2000, TAXI generated revenues of £12,000. TAXI is currently a commission-driven model, with the company generating revenues on the basis of the purchases made by end-users who are put in contact with e-commerce sites through myTAXI. The Board

expects that such revenues will increase both if shopping online becomes more acceptable and, more specifically from Affinity's perspective, if the number of end-users accessing myTAXI increases, and if TAXI signs up more affiliate e-commerce sites.

(d) Competitors and prospects

Within the UK market, there are already a number of personal e-commerce shopping assistants. A number of general ISPs and portals, such as Yahoo!, Freeserve and MSN, offer online shopping directories, including price comparison functions. In addition, several specific online shopping assistants exist, including Shopsmart, Jungle, Jango and Bottomdollar. The Board believes that TAXI has the potential to grow significantly.

8. Strategic relationships

In order to provide its clients and their end-users with Internet access and fixed line switchless telecommunication reseller services, the Group works closely with a number of industry suppliers. The principal strategic relationships are set out below:

ICL

ICL provides the Group with a single generic Internet platform, as well as satisfying VIP's entire Internet hosting requirement. ICL also builds infrastructure for computer telephony integration and e-commerce, which is supplied to VIP under the terms of the contract between them. The relevant hardware and software is upgraded as required by ICL at no additional cost to the client or VIP. ICL charges VIP on the basis of the number of active subscribers (as defined in the contract) using the infrastructure. The terms of the original agreement between VIP and ICL have been amended several times to take account of greater than expected numbers of end-users. The latest amendment, effective from January 2000, implemented a revised charging structure, with the charges levied by ICL being reduced. The agreement will terminate on 1 January 2002, although the agreement may be varied to extend the term.

Cisco

Cisco provides the Group with access servers. Cisco charges the Group on the basis of the number of routers required to service the demand from active subscribers. New routers are leased from Cisco to meet capacity. Cisco recently awarded Affinity with CPN partner status, which the Directors consider to be a significant accolade. Cisco only confers this status to companies which Cisco considers to be amongst the top one per cent of service providers in the world.

Clientlogic

Clientlogic provides the Group, particularly VIP, with technical support and helpdesk facilities through its call centre in Watford. Clientlogic also provides various premium rate help lines for end-users, generating additional revenues for VIP. Clientlogic charges VIP a fixed monthly fee plus an additional charge limited to the number of helpdesk agents assigned to VIP.

Telecommunications providers

The Group currently sources telecommunications capacity and related services from three principal suppliers, namely Cable & Wireless, COLT and Versatel. Although the terms of these agreements differ, these providers typically pay interconnect revenues direct to VIP as capacity is utilised by end-users.

With regard to the future strategic objectives of the Group set out in paragraph 3 above, the Board believes that collaboration with industry suppliers is the most appropriate way to meet the Board's objectives. If the Group develops as the Board expects, both in terms of products and markets, the Board expects to develop additional industry supplier relationships as appropriate.

The Board believes that outsourcing many of the network hardware, software, helpdesk and telecommunications requirements to third parties involves less proprietary risk and a lower financial investment for the Group than would be the case if the relevant technical platforms were developed internally. It also allows the Group the flexibility to incorporate upgraded technology resulting from technological advances by picking "best of breed" products and services from industry suppliers. This approach is not expected to change notwithstanding the further international expansion of the Group.

Further information, where relevant, relating to the terms of the current contracts and agreements between the Group and the existing principal industry suppliers is set out in paragraph 7 of Part 10 of this document.

9. Other activities

Synigence

On 18 May 2000 Affinity announced that it had entered into a joint venture with Synigence, a network of online healthcare professionals. Synigence currently provides electronic information to the professional healthcare market in the UK. The joint venture agreement was concluded in May 2000. It is expected that the joint venture, Synigence Affinity, will create a dedicated healthcare portal and provide additional content to VIP client web-sites.

Engage

Affinity has a strategic relationship with Engage, a provider of profile-driven Internet marketing solutions. The agreement with Engage allows VIP to offer its clients the ability to provide profiled or targeted Internet content and advertisements. Such targeted content has, in the opinion of the Board, the potential to increase the average length of time a web-site is visited, increasing customer loyalty and retention and the probability of response to advertising.

Trans National

On 14 February 2000, Affinity announced its intention to form a joint venture with Trans National, a specialist provider of customer relationship marketing services. Trans National is involved in marketing affinity credit cards. In the UK it serves over 500 associations with a combined membership of over 22 million. In addition, Trans National has extensive experience of marketing other consumer services, including telecommunications services, insurance, investment products and travel services. The agreement was completed in April 2000.

Mister Mail

In June 2000, Affinity concluded the acquisition of Mister Mail, based in the Netherlands. Mister Mail specialises in the provision of permission-based e-mail content, acting as an intermediary between providers of information and subscribers. Mister Mail has a database of over 110,000 subscribers. The subscribers choose whether or not they want to receive any of the available newsletters, on topics ranging from fashion to recipes to gardening. Affinity intends that VIP will offer Mister Mail as a link to other web-sites and as a value-added service to its UK and international clients.

Assisted development

Affinity is, from time to time, approached by smaller Internet-based companies seeking the Group's support to assist in their early development. Where the Board believes that the Group can gain by investing selectively in such companies it will do so.

The Group has an investment of 20 per cent. of the equity in e Recruitment Solutions Plc, a provider of recruitment services. The Group is providing the infrastructure required for the company's new multinational Internet recruitment service.

10. Intellectual property

The name "EGO.maniacs" has been registered as a trade mark. Apart from this, no intellectual property rights are registered in the name of any member of the Group. The Group also has some pending trade mark applications. The Board is not aware of any grounds for an objection to the use of the names "Affinity Internet Holdings PLC" and "Virtual Internet Provider Limited". The Group has recently obtained a ruling from the Trade Marks Registry in relation to VIP in which the hearing officer noted that "VIP" is a standard acronym for "virtual internet provider". Accordingly, although VIP may not be registered as a trademark, being a standard acronym, no other party may register "VIP" in the UK either. Save for the material contracts described in paragraphs 7.1, 7.5, 7.7 and 7.14 of Part 10 of this document, the Group does not depend on any significant intellectual property, whether its own or third party, for its operations.

The Group relies on the English law of "passing off", which may enable it to prevent, and be compensated for, misrepresentations made by other traders that result in damage to the goodwill or reputation of the Group's business. The Group has no patents. Affinity does not own the intellectual property rights in the software underlying its technology platform, but relies upon software licensed from its principal industry suppliers. These third party licences may not continue to be available to the Group on commercially reasonable terms. The loss of any of the technology that the Group relies upon could require Affinity to obtain substitute technology of lower quality or at greater cost and it may interrupt its operations. To date the Group has not been notified that the technology underlying its business infringes the intellectual property rights of any third parties.

PART 5

MANAGEMENT AND ORGANISATION

1. Executive Directors

Terence Plummer

Executive Chairman

Terence Plummer (aged 50) co-founded VIP in association with Wayne Lochner. From 1967 to 1977 he worked for Unilever PLC and held the post of senior manager by the time he left. He was the chief executive of Hobson Plc (working for this company from 1987 to 1991) prior to its acquisition by Hillside Holdings Plc, and has for some years been running his own export company specialising in branded merchandise.

Wayne Lochner

Chief Executive Officer

Wayne Lochner (aged 43) was co-founder of VIP, having identified the potential of the Internet and the role that brands would play in its development in the UK. Wayne spent 15 years with MW Marshall & Co, where he held a number of positions including group treasurer whereby he was active in the development and negotiation of the group's £180,000,000 management buyout from British & Commonwealth.

Wayne was subsequently appointed chief executive and managing director of MAI plc (now United News & Media plc) for the Asia Pacific and Middle East regions. Based in Hong Kong, he negotiated a buyout of the Hong Kong operation, a purchase of a New Zealand operation, and a management buyout of an Australian competitor and established joint ventures in Indonesia and India.

Robert Southward

Technical Director

Robert Southward (aged 54) was appointed Technical Director of VIP in January 1999 and continues in that role for Affinity. Robert has spent all of his career working in information technology, most notably with Bowater Plc and Caradon Everest Limited.

Allan Redfern

Business Development Director

Allan Redfern (aged 55) has worked in the information technology sector since 1972, becoming Head of Internal Systems Worldwide at ICL, before taking managing director roles in two UK based software design companies, Excalibur Software Products Limited and Re-Engineering Maintenance Conversions Limited. Allan joined VIP's board of directors in January 1999 to act as VIP's liaison with ICL. He joined the Board in April 1999.

Stuart Barker ACA

Finance Director

Stuart Barker (aged 33) qualified as a Chartered Accountant (ICAEW) in 1990. Stuart spent the first 12 years of his career in private practice, rising to partner designate, focusing mainly on audit within the insurance sector, but also dealing with a wide variety of other audit and accounting assignments. Stuart left private practice in 1998, and, having set up his own consulting firm, joined VIP as financial controller in July 1998. Stuart subsequently gave up his consultancy business to accept a full time position at VIP, and became Finance Director of Affinity in April 1999, where he now heads up a finance team of 9 staff.

2. Non-executive Directors

Peter Howard-Dobson

Peter Howard-Dobson (aged 48) was appointed as a non-executive director in September 1999. He has worked in the telecommunications and information technology industry over the last 30 years, and has developed and operated telecommunications businesses in the UK, the United States of America, the Middle East and on the Pacific Rim. He was deputy managing director and chief of operations at One 2 One from 1996 to 1998; managing director of Mercury Partner services and of Mercury Business

Enterprise Services from 1995 to 1996; and, prior to that, was vice president business development at Cable & Wireless Inc. in the USA. Peter holds a number of roles on behalf of the Board, particularly as Chairman of the Audit Committee.

June May

June May (aged 48) was appointed as a non-executive director in December 1999. June has spent her career working within the information technology sector. She worked for Wang UK Limited from 1981 to 1985 and held various positions at Digital Equipment Corporation Limited from 1989 to 1994. June has joined a new company, Ramesys e-Business Services Limited, as managing director (2 May 2000). Ramesys e-Business Services is part of the Ramesys Holdings Group. June holds a number of roles on behalf of the Board, particularly as Chair of the Remuneration Committee.

3. Employees

At present, the Group has 141 full-time employees. Of these employees, 85 are in sales and marketing, 11 are in technology and product development, 40 are in finance, general management and administration and 5 are in communications. From time to time the Group employs independent contractors and consultants to support research and development, marketing and sales, and business development. The Group expects that its number of employees will increase significantly as it continues to make acquisitions and expand into additional countries. None of the Group's employees is represented under collective bargaining agreements. The Board considers the Company's relations with its employees to be good.

4. Corporate governance

Although the Board aims to conduct the Company's affairs so as to comply with the requirements of the Combined Code, and generally supports high standards of corporate governance, the Company will not, following Admission, immediately comply with the principles and relevant provisions of the Combined Code.

In particular, the Board will have five executive directors but only two non-executive directors, although the existing non-executive directors bring independent views to bear at Board proceedings, are independent of management and have no relationships interfering with their independent judgment. Although it is the intention of the Board to appoint a further two non-executive directors, no candidates have been identified by the Board as yet.

The Combined Code introduced a requirement that directors review the effectiveness of a group's system of internal control which extended the existing requirement in respect of internal financial control. The Turnbull guidance for directors which was published in September 1999 requires full compliance with the provision of the Combined Code for accounting periods ended on or after 23 December 2000. Whilst the directors intend to establish procedures which comply with the Turnbull guidance, they do not expect to be able to report compliance during the period ending 31 December 2000.

There is currently no Nominations Committee of the Company in place, although some of the functions such a committee would perform are currently carried out by the Company's Remuneration Committee. The Company aims to establish a more formal and transparent procedure for the appointment of new directors to the Board.

Although the Company has established an Audit Committee and a Remuneration Committee, these do not at the present time consist exclusively of non-executive directors. The members of the Audit Committee are Peter Howard-Dobson, June May and Wayne Lochner. The members of the Remuneration Committee are June May, Peter Howard-Dobson and Terence Plummer.

The Audit Committee has responsibility for, among other things, the planning and review of the Company's annual report and accounts and interim reports and the supervision of the Company's auditors in the review of such reports and accounts. The Audit Committee deals in particular with the Group's compliance with legal requirements, accounting standards and the requirements of the London Stock Exchange and the UK Listing Authority and ensures that an effective system of internal financial controls is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the interim reports will remain with the Board.

The Remuneration Committee has responsibility for the determination, within agreed terms of reference, of the Company's policy on the remuneration of the Company's senior executives and recommending specific remuneration packages for each of the executive directors, including pension rights, any compensation payments and implementation of share option schemes. It also considers the composition of the Board and retirements and appointments of additional and replacement directors and makes appropriate recommendations to the Board.

The Audit and Remuneration Committees' memberships are to be reconstituted to appoint further non-executive directors, as and when suitable candidates can be found.

PART 6

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS, RESULTS OF OPERATIONS AND NON-FINANCIAL OPERATING DATA

The following discussion of the financial condition and results of operations of Affinity should be read in conjunction with the "Accountants' report on the Group" and related notes thereto in Part 7 of this document and the "Unaudited interim results for the six months to 30 June 2000" in Part 9 of this document. Prospective investors should read the whole of this document and not just rely on the key or summarised information sections of this document.

1. Turnover

For the six months ended 30 June 2000, the Group's turnover was £4.138 million. For the year ended 31 December 1999 the Group's turnover was £3.4 million, up from £167,000 for the period from the beginning of trading to 31 December 1998. Interconnect revenue has represented a significant proportion of the revenue generated by the Group over the eighteen months to 30 June 2000, but the Board of Affinity now intends to increase revenues from other sources through an increasing range of products and services. Over this period VIP has moved from accounting for 100 per cent. of the Group's revenue earned in 1998 to 80 per cent. of Group turnover (including the Group's share of joint ventures) for the first half of 2000.

For the six months ended 30 June 2000, 70 per cent. of the Group's turnover (including the Group's share of income in joint ventures) was derived from interconnect revenue, 5 per cent. from helpdesk revenues and the balance of 25 per cent. from other revenues including CD replication, e-commerce, telephony and consultancy. For the year ended 31 December 1999, this split was 65 per cent. Interconnect revenue, 7 per cent. helpdesk revenue and the balance of 28 per cent. from other revenues. There are no revenues from advertising.

2. Cost of sales

Total cost of sales of Affinity for the six months ended 30 June 2000 was £5.965 million and for the year ended 31 December 1999 was £7.1 million. The main components of this cost were the ICL platform costs, helpdesk costs, commissions payable to clients and the cost of telecommunications minutes acquired by Affinity.

As the volume of the Group's business has increased, the terms of VIP's original contract with ICL have been renegotiated. The Group has subsequently seen savings of around 50 per cent. in ICL costs in the first six months of this year, despite a subscriber base that increased over the period.

3. Operating expenses

Operating expenses consist primarily of administrative expenses (excluding non-cash share-based compensation). For the six months ended 30 June 2000, administrative expenses were £3.950 million and for the year ended 31 December 1999 were £2.3 million.

Administrative expenses increased throughout the year ended 31 December 1999 as the business grew, with costs of £1.7 million during the second half of the year as against £0.6 million for the first half. They continued to increase during the first half of 2000. The increase reflects the increase in the general volume of Affinity's business, causing a subsequent increase in average staff numbers from 41 at 31 December 1999 to 141 at the present time, together with the acquisition of more office space for the Group. Operating expenses for the year ended 31 December 1999 were comprised of 57 per cent. staff costs, 14 per cent. legal and professional fees, 7 per cent. depreciation and 22 per cent. other expenses.

Administrative expenses for the six months ended 30 June 2000 were £3.950 million. The main components were again compensation to staff, accounting for 56 per cent., legal and professional expenses for 13 per cent., depreciation for 6 per cent. and other expenses for 25 per cent.

The single largest item within operating costs, for the year ended 31 December 1999, of £3.1 million relates to a charge required to be recognised under UITF17 (see below).

In the six months to 30 June 2000 an amortisation charge of £1.224 million arose on the goodwill arising on the acquisition of TAXI, Brightfibre and Mister Mail.

4. Losses

The retained loss for the year ended 31 December 1999 was £9.2 million, equivalent to 66.32p per Ordinary Share. Whilst the Group is engaged in establishing itself in its highly competitive market it is envisaged that the loss making position of the Group will remain.

For the six months ended 30 June 2000 the Group reported a retained loss of £4.505 million (20.7p per Ordinary Share) following the recognition of a profit of £4.077 million on its disposal in February 2000 of 50 per cent. of the shares in TCS.

5. Share Option Schemes

Affinity received shareholder approval on 29 March 2000 for the introduction of an Inland Revenue approved share option scheme and an unapproved share option scheme. The Affinity Internet Holdings PLC Approved Share Option Scheme now enables employees to take advantage of the modest tax benefits available for up to £30,000 worth of shares under option. The Affinity Internet Holdings PLC Unapproved Share Option Scheme permits the grant of options to selected employees in excess of the £30,000 limit. Further information on these schemes is set out in Part 10 of this document.

As at 27 September 2000 options to subscribe for 342,000 Ordinary Shares had been issued to various employees of the Group and directors and were outstanding. The options entitle holders to purchase Ordinary Shares at a weighted average exercise price of approximately £16.50 per Ordinary Share.

As part of the Group's fundraising at the end of 1999 staff were offered the opportunity to subscribe for Ordinary Shares. During the two-week period leading up to the issue of these shares, the market price of these shares increased by over 100 per cent. Under UITF 17 the difference between the proceeds received by the Company from the issue of the shares and the market value of these shares as at the date they were issued has been recognised through operating costs. The relevant charge amounted to £3.1 million.

6. Impact of currency fluctuations

The Group has not incurred any material expenses in relation to currency fluctuations in the past but may incur such costs in the future through international expansion.

7. Liquidity and capital resources

The Group has been reliant on funding its cash resources through the issue of equity, which has been achieved by both public and private issues. In April 1999 the Group raised £2.1 million net of expenses through a placing of Ordinary Shares, and raised a further £19.4 million, net of expenses, through a further placing in December 1999.

At 31 December 1999 the Group had cash reserves in hand of £15 million, whereas at 30 June 2000 this figure was £12.5 million.

Net cash outflow from operating activities was £6.4 million for the six months ended 30 June 2000, £6.7 million for the year ended 31 December 1999 and £332,000 for the period from 1 February 1998 (inception) to 31 December 1998.

Capital expenditure for the six months ended 30 June 2000 was £2.024 million and for the year ended 31 December 1999 was £2.1 million. For the period from 1 February 1998 (inception) to 31 December 1998, capital expenditure was £100,000, all of which was used for motor vehicles and office equipment.

The net increase in cash for the year ended 31 December 1999 was £15.2 million after the share issues during the year. For the six months ended 30 June 2000 the decrease in cash was £2.5 million.

8. Market-related risks

The Group currently has no floating rate indebtedness and holds no derivative instruments. Accordingly, changes in interest rates do not generally have a direct effect on the Group's financial position. However the Group would be affected by any changes in interest rates that affect general economic conditions.

9. Year 2000

The Group has not experienced any material problems as a result of the Year 2000 issue and does not expect to experience any material Year 2000 problems in the future.

10. Quarterly non-financial operating data

Given the early stage of development of the Group, the Board believes that financial information alone may not fully reflect the underlying performance and growth of the business. Accordingly, the Board utilises a range of non-financial operating data for the Group. To date VIP is the only Group company for which such data have been material. The Company expects, however, in future to utilise such data in relation to the Group's other companies as the relevant data for these companies becomes more meaningful. The following table, which is unaudited, summarises, on a quarterly basis from 30 September 1999 to 30 June 2000, the data which the Board has utilised, and also sets out an expected range for such data for the period to 31 December 2001, which has been based on the best estimates of the Directors.

	<i>As at</i> <i>30 September</i> <i>1999</i>	<i>As at</i> <i>31 December</i> <i>1999</i>	<i>As at</i> <i>31 March</i> <i>2000</i>	<i>As at</i> <i>30 June</i> <i>2000</i>	<i>Expected</i> <i>range as at</i> <i>31 December</i> <i>2001</i>
Number of VIP registered accounts	415,810	601,271	804,304	964,223	1,260,000 to 1,675,000
Number of VIP 60 day active accounts	216,175	267,104	374,683	391,116	595,000 to 790,000
Number of VIP 28 day active accounts	172,212	234,292	314,639	328,820	475,000 to 620,000
TCS users	—	2,171	2,171	2,216	185,000 to 235,000
EGO Maniacs users	—	14,073	22,084	31,889	50,000 to 75,000
TAXI users	—	83,219	124,887	89,387	300,000 to 360,000
	<i>Three months ended</i> <i>30 September</i> <i>1999</i>	<i>Three months ended</i> <i>31 December</i> <i>1999</i>	<i>Three months ended</i> <i>31 March</i> <i>2000</i>	<i>Three months ended</i> <i>30 June</i> <i>2000</i>	
Average minutes of use per VIP 28 day active account	413	455	508	469	
VIP churn	N/A	33.5%	20.3%	26.8%	

In some cases, more than one individual end-user might use a registered account, for example by registering more than one e-mail address for the same account or where several family members access different services. The total number of e-mail addresses registered totalled 1,183,235 as at 31 March 2000. These categories of non-financial operating data are generated by ICL, the Group's supplier of its Internet platform, and supplied to the Group on a monthly basis or as requested. For those categories of non-financial operating data where it is relevant, the Group is currently in the process of establishing procedures to carry out a monthly reconciliation between this ICL information and the interconnect revenue information provided by Affinity's telecommunications services providers, Cable & Wireless, COLT and BT.

TCS users are those users who have contracted with TCS for the provision of telephony services. EGO Maniacs users are those end-users who have registered with EGO Maniacs for the provision of online entertainment services. Figures for TAXI users are derived from the number of unique visitors to the TAXI web-site in any given month, the figure being derived using I-Pro's I/Audit software. Unique visitors are the different individuals who visit a web-site within the relevant reporting period; individuals visiting the web-site more than once during the relevant reporting period are only counted once.

The average minutes of use per VIP 28 day active account is defined as the total number of minutes generated through Affinity's telecommunications services providers divided by the average number of 28 day active accounts during the relevant quarter. Churn is defined as the increase in inactive end-users divided by the sum of the number of active end-users at the start of the relevant quarter and the increase in the number of registered accounts during the quarter.

Affinity will be required, as part of its continuing obligations as a company admitted to the Official List, to report, in all quarterly and annual results, the then current data in the above categories of non-financial operating data, together with such other categories of non-financial operating data as may become relevant as the Group's business develops over time. The Directors expect that the Company will announce its unaudited results for the 3 months to 30 September 2000 before the end of November 2000.

PART 7
ACCOUNTANTS' REPORT ON THE GROUP



Audit Plc

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London
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The Directors
Charles Stanley & Company Limited
25 Luke Street
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28 September 2000

Dear Sirs

Affinity Internet Holdings PLC

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 28 September 2000 of Affinity Internet Holdings PLC ('the Company').

Basis of preparation

The financial information set out in this report is based on the audited non statutory consolidated financial statements of the Company and of its subsidiary undertakings (collectively referred to as 'the Group') for the three months ended 31 March 2000 and the audited consolidated financial statements for the Group for the two years ended 31 December 1999 prepared on the basis described in note 2 to which no adjustments were considered necessary.

In April 1999 the Company acquired the entire share capital of Virtual Internet Provider Limited. This transaction was accounted for using the principles of merger accounting.

The accounts of Virtual Internet Provider Limited for the period ended 31 December 1998 were audited by Masons, Chartered Accountants and Registered Auditors, who gave an unqualified report thereon.

Responsibility

The financial statements referred to above are the responsibility of the Directors of the Group who approved their issue.

The Directors of the Group are responsible for the contents of the prospectus dated 28 September 2000 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. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us and by Masons relating to the audit of 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 prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its results and cash flows for the periods then ended.

Consolidated profit and loss account

		Year ended 31 December Note	Year ended 31 December 1999 £000	Three months ended 31 March 2000 £000
Turnover				
Group and share of joint ventures		167	3,424	2,071
Less: share of joint venture's turnover		—	—	(38)
Group turnover	3	167	3,424	2,033
Cost of sales		(485)	(7,126)	(2,812)
Gross loss		(318)	(3,702)	(779)
Administrative expenses		(596)	(2,324)	(1,623)
Amortisation of goodwill	13	—	(8)	(606)
Exceptional item	4	—	(3,113)	—
Total administrative expenses		596	(5,445)	(2,229)
Group operating loss	3	(914)	(9,147)	(3,008)
Share of operating loss in joint ventures	16	—	—	(54)
		(914)	(9,147)	(3,062)
Profit on disposal of 50 per cent. of shares in subsidiary undertaking	4	—	—	4,077
(Loss)/profit on ordinary activities before interest		(914)	(9,147)	1,015
Interest receivable and similar income	8	—	14	250
Interest payable and similar charges	9	(8)	(39)	(26)
(Loss)/profit on ordinary activities before taxation	5	(922)	(9,172)	1,239
Tax charge on profit on ordinary activities	10	—	—	(1,965)
Retained loss for the financial period		(922)	(9,172)	(726)
Loss per ordinary share	12	(6.45)p	(66.32)p	(3.35)p
Fully diluted loss per ordinary share	12	(6.45)p	(66.32)p	(3.30)p

All activities relate to continuing operations.

The total figures for March 2000 include the following amounts relating to acquisitions: turnover – £2,000, cost of sales – £6,000, and administrative expenses – £177,000.

The total figures for 1999 include the following amounts relating to acquisitions: turnover – £71,000, cost of sales – £50,000, and administrative 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.

Consolidated balance sheet

	Note	31 December 1998 £000	31 December 1999 £000	31 March 2000 £000
Fixed assets				
Intangible assets	13	—	41	11,473
Tangible assets	14	75	2,025	902
Investments	15	—	—	400
Investments in joint ventures:				
Share of gross assets		—	—	1,102
Share of gross liabilities		—	—	(232)
	16	—	—	870
		<u>75</u>	<u>2,066</u>	<u>13,645</u>
Current assets				
Stocks	18	—	33	—
Debtors	19	72	3,339	1,669
Investments	20	—	400	—
Cash at bank and in hand		<u>7</u>	<u>14,963</u>	<u>18,261</u>
		79	18,735	19,930
Creditors: amounts falling due within one year	21	<u>(933)</u>	<u>(3,644)</u>	<u>(5,037)</u>
Net current (liabilities)/assets		<u>(854)</u>	<u>15,091</u>	<u>14,893</u>
Total assets less current liabilities		<u>(779)</u>	<u>17,157</u>	<u>28,538</u>
Creditors: amounts falling due after more than one year	22	<u>(40)</u>	<u>(189)</u>	<u>(236)</u>
Net (liabilities)/assets		<u><u>(819)</u></u>	<u><u>16,968</u></u>	<u><u>28,302</u></u>
Capital and reserves				
Called up share capital	24	—	2,135	2,171
Shares to be issued	25	1,368	—	5,970
Share premium account	26	—	23,079	23,155
Other reserves	26	(1,265)	(1,265)	4,713
Profit and loss account	26	<u>(922)</u>	<u>(6,981)</u>	<u>(7,707)</u>
Equity shareholders' (deficit)/funds		<u><u>(819)</u></u>	<u><u>16,968</u></u>	<u><u>28,302</u></u>

Consolidated cash flow statement

		Year ended 31 December 1998 £000	Year ended 31 December 1999 £000	Three months ended 31 March 2000 £000
	Note			
Cash flow statements				
Cash flow from operating activities	28	(332)	(6,667)	(1,434)
Returns on investments and servicing of finance	29	(8)	(25)	224
Capital expenditure	29	(100)	(2,091)	(331)
Acquisitions and disposals	29	—	9	4,762
Cash outflow before financing		(440)	(8,774)	3,221
Financing	29	160	24,017	77
(Decrease)/increase in cash in the period		<u>(280)</u>	<u>15,243</u>	<u>3,298</u>
Reconciliation of net cash flow to movement in net (debt)/funds				
	30			
(Decrease)/increase in cash in the period		(280)	15,243	3,298
Cash inflow from increase in debt and lease financing		<u>17</u>	<u>42</u>	<u>15</u>
Change in net debt resulting from cash flows		(263)	15,285	3,313
New finance leases		<u>(74)</u>	<u>(263)</u>	<u>(92)</u>
Movement in net (debt)/funds in the period		(337)	15,022	3,221
Net (debt)/funds at the start of the period		—	(337)	14,685
Net (debt)/funds at the end of the period		<u>(337)</u>	<u>14,685</u>	<u>17,906</u>

Reconciliation of movements in shareholders' funds

	Year ended 31 December 1998 £000	Year ended 31 December 1999 £000	Three months ended 31 March 2000 £000
Retained loss for the financial period	(922)	(9,172)	(726)
New ordinary shares issued (net of issue costs)	103	23,846	6,090
New ordinary shares to be issued on acquisition	—	—	5,970
Compensation charge for shares issued to employees	—	3,113	—
Net (reduction in)/addition to shareholders' funds	(819)	17,787	11,334
Opening shareholders' (deficit)/funds	—	(819)	16,968
Closing shareholders' (deficit)/funds	<u>(819)</u>	<u>16,968</u>	<u>28,302</u>

Notes

(forming part of the financial statements)

1. History of the Company

On 10 December 1998, the Company was incorporated in England and Wales as YPCS 77 PLC. The name was changed to Affinity Internet Holdings PLC on 17 March 1999.

The Company commenced 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 transaction ('the corporate reconstruction') was accounted for using the principles of merger accounting (see below). Virtual Internet Provider Limited was incorporated on 3 July 1997 and remained dormant until it commenced trading on 1 February 1998.

The Company 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 Company acquired 100 per cent. of the shares of Brightfibre Communications plc and on 6 January 2000 the Company acquired TAXI Interactive Limited including its trading subsidiary myTAXI Limited.

In February 2000, the Company sold 50 per cent. of the shares in TeleCentric Solutions Limited.

2. 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 applicable accounting standards other than Financial Reporting Standard No 6 (FRS 6) 'Acquisitions and Mergers' as explained below. Two new accounting standards, FRS 15 'Tangible fixed assets' and FRS 16 'Current tax', have become effective in the period ended 31 March 2000 and have been adopted by the Group. Neither has had any significant impact on the results or net assets.

The Affinity Internet Holdings Group was created by the corporate reconstruction whereby, on 9 April 1999, the whole of the issued share capital of Virtual Internet Provider Limited was transferred to a newly formed holding company, Affinity Internet Holdings PLC.

The acquisition of Virtual Internet Provider Limited 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 the 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 1985 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 corporate restructuring involving Virtual Internet Provider Limited and 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. The merger method of accounting has been adopted for the corporate reconstruction. Under this method, the results of the subsidiary undertaking acquired have been included in the consolidated figures as if the undertaking had always been a part of the Group. The results for the year ended 31 December 1998 consist of Virtual Internet Provider Limited only. Acquisition accounting has

been applied in respect of the other acquisitions during the periods. 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.

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 – three years straight line. The Directors believe that three years represents a realistic assessment of the useful economic life of the Brightfibre product.

TAXI Interactive Limited – five years straight line. The Directors believe that five years represents a realistic assessment of the useful economic life of the myTAXI product.

Fixed assets investments

In the group's financial statements fixed asset investments 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 cent. per annum reducing balance
Computer equipment and software	– 3 years straight line
Motor vehicles	– 25 per cent. 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.

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.

Pensions

Contributions on behalf of certain employees and directors into a defined contribution pension scheme are charged to the profit and loss account as they are incurred.

3. Segmental information

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

	Year ended 31 December 1998 £000	Year ended 31 December 1999 £000	Three months ended 31 March 2000 £000
Turnover			
Internet services	167	3,130	1,882
Telecommunications	—	294	189
	<u>167</u>	<u>3,424</u>	<u>2,071</u>
Less share of joint venture turnover			
Telecommunications	—	—	(38)
Group turnover	<u>167</u>	<u>3,424</u>	<u>2,033</u>
Pre-exceptional operating loss			
Internet services	(914)	(5,471)	(2,384)
Telecommunications	—	(482)	(183)
Corporate costs	—	(81)	(441)
	<u>(914)</u>	<u>(6,034)</u>	<u>(3,008)</u>
Exceptional items (see note 4)			
Internet services	—	(2,903)	—
Telecommunications	—	(106)	—
Corporate costs	—	(104)	—
	<u>(914)</u>	<u>(9,147)</u>	<u>(3,008)</u>
Share of operating loss in joint venture			
Telecommunications	—	—	(54)
Operating loss including share of joint venture	<u>(914)</u>	<u>(9,147)</u>	<u>(3,062)</u>
Segment net (liabilities)/assets			
Internet services	(819)	14,243	21,298
Telecommunications	—	(433)	907
Corporate net assets	—	3,158	6,097
Net (liabilities)/assets	<u>(819)</u>	<u>16,968</u>	<u>28,302</u>

Internet services represents the Group's internet service provider, e-commerce 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.

During the three months to 31 March 2000, the whole of the telecommunications segment was transferred into a joint venture through the disposal of 50 per cent. of the Group's holding in TeleCentric Solutions Limited.

4. Exceptional items

On 21 February 2000, the Company disposed of 50 per cent. of the shares in previously wholly owned subsidiary, TeleCentric Solutions Limited. A gain of £4.077 million arose on the £5 million initial consideration. A further £5 million of consideration is contingent on the future customer growth of TeleCentric Solutions.

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.

5. Loss on ordinary activities before taxation

	<i>Year ended 31 December 1998 £000</i>	<i>Year ended 31 December 1999 £000</i>	<i>Three months ended 31 March 2000 £000</i>
Loss on ordinary activities before taxation is stated after charging:			
Auditors' remuneration:			
Audit	3	60	20
Other services	18	95	5
Depreciation and other amounts written off tangible fixed assets:			
Owned	7	75	56
Leased	18	90	20
Amortisation of goodwill	—	8	606
Rentals payable under operating leases:			
Plant and machinery	42	404	253
Other assets	11	64	32

Fees paid to the auditor and its associates in respect of other services for the year ended 31 December 1999 related to the equity placing and are set off against the share premium account.

6. Remuneration of directors

	Salary £	Benefits £	Other £	Total £
Year ended 31 December 1998				
Executive directors				
Terry Plummer	—	—	46,739	46,739
Wayne Lochner	73,643	—	—	73,643
	<u>73,643</u>	<u>—</u>	<u>46,739</u>	<u>120,382</u>
Year ended 31 December 1999				
Executive directors				
Terry Plummer	75,111	14,455	—	89,566
Wayne Lochner	111,178	9,226	3,040	123,444
Robert Southward	57,500	8,793	—	66,293
Allan Redfern	48,750	8,257	—	57,007
Stuart Barker	37,083	3,586	—	40,669
	<u>329,622</u>	<u>44,317</u>	<u>3,040</u>	<u>376,979</u>
Non-executive directors				
Peter Howard-Dobson	5,295	—	62,250	67,545
June May	—	—	—	—
	<u>5,295</u>	<u>—</u>	<u>62,250</u>	<u>67,545</u>
	<u>334,917</u>	<u>44,317</u>	<u>65,290</u>	<u>444,524</u>
Three months ended 31 March 2000				
Executive directors				
Terry Plummer	32,190	3,594	—	35,784
Wayne Lochner	29,346	3,480	—	32,826
Robert Southward	15,000	3,046	—	18,046
Allan Redfern	15,000	2,053	—	17,053
Stuart Barker	11,250	1,256	—	12,506
	<u>102,786</u>	<u>13,429</u>	<u>—</u>	<u>116,215</u>
Non-executive directors				
Peter Howard-Dobson	3,750	—	—	3,750
June May	3,750	—	—	3,750
	<u>7,500</u>	<u>—</u>	<u>—</u>	<u>7,500</u>
	<u>110,286</u>	<u>13,429</u>	<u>—</u>	<u>123,715</u>

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

The 1998 remuneration of Terry 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 period had the following interests in the ordinary shares of the Company according to the register of directors' interests:

			31 December 1998 or date of appointment	31 December 1999	31 March 2000
	Company	Ordinary shares			
Terry Plummer	Affinity		—	5,694,029	5,694,029
	VIP	'A'	325,000	—	—
	VIP	'B'	86,094	—	—
Wayne Lochner	Affinity		—	5,694,029	5,694,029
	VIP	'A'	325,000	—	—
	VIP	'B'	86,094	—	—
Robert Southward	Affinity		—	408,864	408,864
	VIP	'B'	29,335	—	—
Allan Redfern	Affinity		—	204,432	204,432
	VIP	'B'	14,667	—	—
Stuart Barker	Affinity		—	102,202	102,202
	VIP	'B'	7,333	—	—
Peter Howard-Dobson	Affinity		5,000	13,300	13,300
June May	Affinity		—	—	—

None of the directors who held office at the end of the financial period 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 Group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

7. Staff numbers and costs

The average number of persons employed by the Group (including directors) during the period, analysed by category, was as follows:

	Number of employees		
	1998	1999	2000
Management	2	5	5
Administration	5	36	52
	<u>7</u>	<u>41</u>	<u>57</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 1998 £000	Year ended 31 December 1999 £000	Three months ended 31 March 2000 £000
Wages and salaries	226	1,222	647
Social security costs	21	107	63
Share compensation	—	3,113	—
Pension costs	—	—	6
	<u>247</u>	<u>4,442</u>	<u>716</u>

8. Interest receivable and similar income

	Year ended 31 December 1998 £000	Year ended 31 December 1999 £000	Three months ended 31 March 2000 £000
Interest receivable on short term deposits	—	14	250

9. Interest payable and similar charges

	Year ended 31 December 1998 £000	Year ended 31 December 1999 £000	Three months ended 31 March 2000 £000
On bank loans and overdrafts	6	26	2
Finance charges payable in respect of finance leases	2	13	7
Other interest	—	—	17
	<u>8</u>	<u>39</u>	<u>26</u>

10. Tax on profit on ordinary activities

There is a current tax charge of £1,965,000 for the period ended 31 March 2000. 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 per cent. (1998: 31 per cent.) for decelerated capital allowances are £35,000 and for losses carried forward at 31 December 1999 are £2,019,000 (1998: £266,000).

The disposal of 50 per cent. of the shares in TeleCentric Solutions resulted in a capital gain of £8.75 million. The Directors expect this gain to be further offset by trading losses for the year ending 31 December 2000, although a tax liability for the three months to 31 March 2000 of £1,965,000 has arisen.

11. Dividends and other appropriations

The Directors do not recommend the payment of a dividend.

12. Loss per equity share

The loss per equity share has been calculated on the basis of a loss of £726,000 (1999: loss of £9,172,000; 1998: loss of £922,000) attributable to shareholders of Affinity Internet Holdings PLC and 21,685,000 (1999: 13,830,018; 1998: 14,286,000) ordinary shares being the weighted average number of ordinary shares in issue during the period in accordance with FRS 14.

	Year ended 31 December 1998	Year ended 31 December 1999	Three months ended 31 March 2000
Weighted average number of shares in issue	14,286,000	13,830,018	21,685,000
Dilution effects of deferred consideration on the TAXI Interactive acquisition	—	—	328,020
Diluted weighted average number of shares	<u>14,286,000</u>	<u>13,830,018</u>	<u>22,013,020</u>

There is no difference between the weighted average shares used for the loss on a diluted basis for the years ended 31 December 1998 and 1999. The weighted average shares outstanding in 1998 are the number outstanding immediately following the group reconstruction.

13. Intangible fixed assets

	<i>Goodwill</i> <i>£000</i>
Cost	
At 31 December 1998	—
Additions	49
At 31 December 1999	49
Additions	12,038
At 31 March 2000	<u>12,087</u>
Amortisation	
At 31 December 1998	—
Charged in year	8
At 31 December 1999	8
Charged for three months	606
At 31 March 2000	<u>614</u>
Net book value	
At 31 December 1998	—
At 31 December 1999	<u>41</u>
At 31 March 2000	<u>11,473</u>

14. Tangible fixed assets

	Short leasehold property £000	Computer equipment and software £000	Office equipment £000	Motor vehicles £000	Payments on account and assets in course of construction £000	Total £000
Cost						
At 1 January 1998	—	—	—	—	—	—
Additions	—	12	11	77	—	100
At 31 December 1998	—	12	11	77	—	100
Additions	6	115	107	263	1,600	2,091
On acquisition	—	24	—	—	—	24
At 31 December 1999	6	151	118	340	1,600	2,215
Additions	12	286	33	79	—	410
On acquisition	—	223	3	—	—	226
Transferred to joint venture	—	(69)	(51)	—	(1,600)	(1,720)
Disposals	—	—	—	(6)	—	(6)
At 31 March 2000	18	591	103	413	—	1,125
Depreciation						
At 1 January 1998	—	—	—	—	—	—
Charged in year	—	4	2	19	—	25
At 31 December 1998	—	4	2	19	—	25
Charged in year	2	55	28	80	—	165
At 31 December 1999	2	59	30	99	—	190
Charge for period	2	51	5	18	—	76
Transferred to joint venture	—	(23)	(17)	—	—	(40)
Disposals	—	—	—	(3)	—	(3)
At 31 March 2000	4	87	18	114	—	223
Net book value						
At 31 December 1998	—	8	9	58	—	75
At 31 December 1999	4	92	88	241	1,600	2,025
At 31 March 2000	14	504	85	299	—	902

Included in the total net book value is £327,008 (1999: £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 £20,238 (1999: £89,555; 1998: £17,665).

15. Investments (held as fixed assets)

	31 December 1998 £000	31 December 1999 £000	31 March 2000 £000
Other Investments	—	—	400

The Company acquired 10 per cent. of the ordinary share capital of E.Recruitment.com LTD. In a separate put and call arrangement, the Company was granted the option to acquire an additional 10 per cent. and the majority shareholders of E.Recruitment.com LTD were granted an option to trigger the subscription by the Company for an additional 10 per cent. for a consideration of £400,000. Following a corporate reorganisation, E.Recruitment.com LTD became the subsidiary of e Recruitment Solutions Plc and the shareholding of the Company in E.Recruitment.com LTD was exchanged for shares in e Recruitment Solutions Plc. The investment in e Recruitment Solutions Plc was transferred from current investments to fixed assets investments on the basis that the Directors do not believe that the investment will be sold within 12 months.

16. Investments in joint ventures

	31 March 2000 £000	31 March 2000 £000
Share of assets		
Share of fixed assets	849	
Share of current assets	<u>253</u>	
		1,102
Share of liabilities falling due within one year		<u>(232)</u>
		<u>870</u>

The profit and loss account of TeleCentric Solutions Limited following the 50 per cent. disposal stated in accordance with Affinity Internet Holdings PLC accounting policies was as follows:

	From 25 February to 31 March 2000
Turnover	76
Cost of sales	<u>(117)</u>
Gross loss	(41)
Administrative expenses	<u>(67)</u>
Operating loss	<u>(108)</u>
Affinity's share	<u>(54)</u>

17. Principal subsidiaries, joint ventures and fixed asset investments

The following companies were principal subsidiaries and joint ventures at 31 March 2000 and have been included within the financial statements:

	Country of incorporation	Principal activity	Class of share	Group holding percentage
Subsidiary undertakings				
Virtual Internet Provider Limited	England & Wales	Internet services	Ordinary	100
EGO Maniacs.net Limited	England & Wales	Internet games	Ordinary	100
Brightfibre Communications plc	England & Wales	Telecommunications	Ordinary	100
TAXI Interactive Limited	England & Wales	E-commerce	Ordinary	100
myTAXI Limited	England & Wales	E-commerce	Ordinary	100
Joint ventures				
TeleCentric Solutions Limited	England & Wales	Telecommunications	Ordinary	50 ¹
80 VSQ Limited	England & Wales	Dormant company	Ordinary	50
79 VSQ Limited	England & Wales	Dormant company	Ordinary	50
Fixed asset investment				
Affinity Internet Pty Limited	Australia	Internet services	Ordinary	25 ²
e Recruitment Solutions Plc	England & Wales	Recruitment	Ordinary	10

Notes:

- 50 per cent. disposed in February 2000 - see note 4. Following this disposal this investment is being treated as a joint venture.
- The Company acquired a 25 per cent. holding in return for the know how, business model and trading name for which the Directors have ascribed no value.

18. Stocks

	31 December 1998 £000	31 December 1999 £000	31 March 2000 £000
Goods for resale	<u>—</u>	<u>33</u>	<u>—</u>

19. Debtors

	31 December 1998 £000	31 December 1999 £000	31 March 2000 £000
Trade debtors	18	806	1,417
Other debtors	43	595	197
Placing proceeds receivable	—	1,733	—
Called up share capital not paid	—	9	9
Prepayments and accrued income	11	196	46
	<u>72</u>	<u>3,339</u>	<u>1,669</u>

All debts held by the Group are due within one year.

20. Investments (held as current assets)

	31 December 1998 £000	31 December 1999 £000	31 March 2000 £000
Other investments	<u>—</u>	<u>400</u>	<u>—</u>

Discussed in note 15.

21. Creditors: amounts falling due within one year

	31 December 1998 £000	31 December 1999 £000	31 March 2000 £000
Bank loans and overdrafts	287	—	—
Obligations under finance leases (see note 22)	17	89	119
Trade creditors	265	2,607	2,038
Taxation and social security	51	154	8
Other creditors	101	453	427
Corporation tax	—	—	1,965
Accruals and deferred income	104	341	480
Directors' loan account	108	—	—
	<u>933</u>	<u>3,644</u>	<u>5,037</u>

The Group has a revolving credit facility of £1,000,000. The facility terminates on 31 October 2000 and interest is payable at 3.0 per cent. over the bank's base rate. This is secured by a debenture over the fixed and current assets of the Group.

22. Creditors: amounts falling due after more than one year

	31 December 1998 £000	31 December 1999 £000	31 March 2000 £000
Obligations under finance leases	<u>40</u>	<u>189</u>	<u>236</u>

Analysis of debt

	31 December 1998 £000	31 December 1999 £000	31 March 2000 £000
Debt can be analysed as falling due:			
In one year or less, or on demand	17	89	119
Between one and two years	17	83	115
Between two and five years	23	106	121
	<u>57</u>	<u>278</u>	<u>355</u>

The maturity of obligations under finance leases is as follows:

	31 December 1998 £000	31 December 1999 £000	31 March 2000 £000
Within one year	20	115	152
In the second to fifth years	53	236	238
Over five years	—	—	—
	<u>73</u>	<u>351</u>	<u>390</u>
Less future finance charges	<u>(16)</u>	<u>(73)</u>	<u>(35)</u>
	<u>57</u>	<u>278</u>	<u>355</u>

23. Acquisitions

On 1 July 1999 the Company agreed to acquire 100 per cent. 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 three 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	<u>59</u>
Total liabilities – creditors	<u>(58)</u>
Net assets acquired	1
Goodwill	49
Purchase consideration – satisfied by shares allotted	<u>50</u>

Brightfibre Communications plc 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.

On 6 January 2000, the Company acquired 100 per cent. of the ordinary shares of TAXI Interactive Limited, together with its operating subsidiary myTAXI Limited, for immediate consideration of 353,741 ordinary shares and deferred consideration of 351,175 ordinary shares at a price of £17 per share. The deferred consideration will be satisfied on the first anniversary of completion, subject to reduction by any valid claims under the warranties or the tax deed. The following sets out the book value of the identifiable assets and liabilities and their fair value to the Company.

	<i>Book value</i> £000	<i>Fair value</i> <i>adjustment</i> £000	<i>Accounting</i> <i>policy</i> <i>adjustment</i> £000	<i>Fair value</i> £000
Fixed assets				
Intangible assets	44	(44)	—	—
Tangible assets	247	—	(21)	226
Current assets				
Debtors	47	—	—	47
Cash	126	—	—	126
Total assets	464	(44)	(21)	399
Liabilities due within one year	(125)	—	—	(125)
Liabilities due in more than one year	(75)	—	—	(75)
Total liabilities	(200)	—	—	(200)
Net assets acquired	264	(44)	(21)	199
Goodwill				12,038
				12,237
Purchase consideration				
Shares allotted				6,014
Deferred consideration				5,970
Cash consideration and acquisition costs				253
				12,237

The Company ascribed no value to the intellectual property acquired. The fixed assets were adjusted to reflect the depreciation policies of the Group.

The consolidated loss of TAXI Interactive Limited was £160,000 for the period from 1 September 1999 to 5 January 2000 and £1,650,000 for the 13 months to 31 August 1999.

24. Called up share capital

	<i>31 December</i> <i>1998</i> £000	<i>31 December</i> <i>1999</i> £000	<i>31 March</i> <i>2000</i> £000
Authorised			
50,000,000 ordinary shares of 10 pence each	5,000	5,000	5,000
Allotted and called up			
91,075 (1999: 91,075; 1998: NIL) ordinary shares of 10 pence each	—	9	9
Allotted, called up and fully paid			
21,618,669 (1999: 21,263,091; 1998: NIL) ordinary shares of 10 pence each	—	2,126	2,162

The Company was incorporated with an authorised share capital of 100,000 ordinary shares of £1 each, of which 2 shares, nil paid, were issued on incorporation. A further 49,998 shares, paid up as to 25 pence each, were issued on 26 March 1999, at which time the two nil paid shares were paid up as to 25 pence each. 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 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 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 per cent. 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 Proprietary Limited and Affinity Australia Pty Limited (to rank *pari passu* with existing shares) for a consideration of £200,000.

On 22 November 1999, the Company issued 319,250 shares for total consideration of £1,531,774 to staff.

On 22 November 1999 the Company issued 75,000 ordinary shares to Anthony Daltrey for a total cash consideration of £355,000 and in full and final settlement of a dispute with Mr Daltrey arising out of the placing referred to in paragraph 2.4 of Part 10 of this document.

On 22 December 1999, the Company issued 1,785,188 shares at £11.50 per share through a placing.

On 31 December 1999, Singer & Friedlander Limited exercised its option to subscribe for 854,166 shares at 10 pence each and in satisfaction of that option the Company issued 854,166 Ordinary Shares.

On 6 January 2000, the Company issued 353,741 ordinary shares at £17 each as partial consideration for the acquisition of 100 per cent. of the shares of TAXI Interactive Limited.

On 28 March 2000, the Company issued 1,837 ordinary shares at a market value of £76,000 in aggregate in consideration for fixed assets.

25. Shares issued

	31 December 1998	31 December 1999	31 March 2000
	£000	£000	£000
Shares issued	1,368	—	5,970

At 31 March 2000, shares issued of £5,970,000 represented deferred consideration of 351,175 shares at £17 per share for TAXI Interactive Limited.

At 31 December 1998 shares issued to a value of £1,368,000 arose under merger accounting. They represented shares to be issued under the Group reconstruction on 9 April 1999, as consideration for the shares in Virtual Internet Provider Limited.

26. Share premium and reserves

	Other reserves	Share premium account	Profit and loss account
	£000	£000	£000
At 1 January 1998	(1,265)	—	—
Retained loss for the year	—	—	(922)
At 31 December 1998	(1,265)	—	(922)
Retained loss for the year	—	—	(9,172)
Premium on share issues, less expenses	—	23,079	—
Compensation on the issue of shares to staff	—	—	3,113
At 31 December 1999	(1,265)	23,079	(6,981)
Retained loss for the period	—	—	(726)
Premium on share issue	5,978	76	—
At 31 March 2000	4,713	23,155	(7,707)

Other reserves consist of a capital reserve of £1,265,000 debtor balance for the corporate reconstruction and a merger reserve of £5,978,000 creditor balance for the share for share acquisition of TAXI Interactive Limited.

27. Commitments and contingent liabilities

- (a) At 31 March 2000 the Group had entered into commitments amounting to £nil (1999: £61,191; 1998: £nil) in respect of finance leases and similar hire purchase contracts.
- (b) Capital commitments of the Group at the end of March 2000 for which no provision has been made were £814,000 (1999: £396,000; 1998: £nil).
- (c) The Group has authorised a contribution of up to £2.5 million in initial funding for the TransAffinity joint venture, of which £250,000 was committed.
- (d) In October 1999, the Group acquired the business known as Gameszone for contingent consideration of 50 per cent. 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.
- (e) The Company and certain subsidiaries have guaranteed the revolving credit facility.
- (f) Annual commitments under the Group's non-cancellable operating leases are as follows:

	31 December 1998		31 December 1999		31 March 2000	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:						
Within one year	13	—	—	62	—	47
In the second to fifth years inclusive	—	167	126	840	126	1,121
Over five years	—	—	—	—	—	—
	<u>13</u>	<u>167</u>	<u>126</u>	<u>902</u>	<u>126</u>	<u>1,168</u>

28. Reconciliation of operating loss to operating cash flows

	Year ended 31 December 1998 £000	Year ended 31 December 1999 £000	Quarter ended 31 March 2000 £000
Operating loss	(914)	(9,147)	(3,008)
Depreciation and amortisation	25	173	682
Exceptional item – share compensation	—	3,113	—
Increase in stocks	—	(33)	(12)
(Increase)/decrease in debtors	(72)	(3,241)	1,318
Increase /(decrease) in creditors	629	2,468	(414)
Net cash outflow from operating activities	<u>(332)</u>	<u>(6,667)</u>	<u>(1,434)</u>

29. Analysis of cash flows

	Year ended 31 December 1998 £000	Year ended 31 December 1999 £000	Three months ended 31 March 2000 £000
Returns on investment and servicing of finance			
Interest received	—	14	250
Interest paid	(6)	(26)	(19)
Interest element of finance lease rental payments	(2)	(13)	(7)
	<u>(8)</u>	<u>(25)</u>	<u>224</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(100)	(2,091)	(334)
Proceeds from sales of tangible fixed assets	—	—	3
	<u>(100)</u>	<u>(2,091)</u>	<u>(331)</u>
Acquisitions and disposals			
Net cash acquired with subsidiary	—	9	23
Proceeds from sale of subsidiary	—	—	4,739
	<u>—</u>	<u>9</u>	<u>4,762</u>
Financing			
Issue of ordinary share capital	103	25,177	—
Costs relating to share issue	—	(1,381)	—
Finance leases issued during the year	74	263	92
Capital element of finance lease rental payments	(17)	(42)	(15)
	<u>160</u>	<u>24,017</u>	<u>77</u>

Brightfibre Communications plc, which the company agreed to acquire on 1 July 1999, contributed £28,000 to the Group's net operating cash flows during the period of acquisition. TAXI Interactive Limited, which was acquired on 6 January 2000, contributed an outflow of £141,000 to the Group's net operating cash flows during the period of acquisition. An analysis of the net assets acquired and how the consideration was satisfied is shown in note 23.

As part of the corporate reconstruction, on 20 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 in E.Recruitment.com LTD for deferred consideration of £400,000 to be settled through the provision of services and cash (see note 15).

On 28 March 2000, the Company acquired fixed assets with a market value of £76,000 for the issue of shares at the current price of £41.37.

30. Analysis of net debt

	At 1 January 1998 £000	Cash flow £000	Other non-cash changes £000	At 31 December 1998 £000	Cash flow £000	Other non cash changes £000	At 31 December 1999 £000	Cash flow £000	Other non cash changes £000	At 31 March 2000 £000
Cash in hand, at bank	—	7	—	7	14,956	—	14,963	3,298	—	18,261
Overdrafts	—	(287)	—	(287)	287	—	—	—	—	—
	—	(280)	—	(280)	15,243	—	14,963	3,298	—	18,261
Finance leases	—	17	(74)	(57)	42	(263)	(278)	15	(92)	(355)
Total	—	(263)	(74)	(337)	15,285	(263)	14,685	3,313	(92)	17,906

31. 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, the Group had no bank borrowings at the end of the period. The Group has a revolving credit facility which accrues interest at 3 per cent. above base rate. The Group has also entered into finance lease contracts, which carry different rates of interest.

The Group does not have 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.

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

32. Post balance sheet events

On 17 April 2000, the Company concluded its contractual negotiations with Trans National Group Services, LLC for the creation of the TransAffinity joint venture.

On 18 May 2000, the Company concluded its contractual negotiations with Synigence for the creation of the new joint venture with an initial funding commitment of £600,000.

On 22 May 2000 the Company issued 3,478 Ordinary Shares to John D Cahill credited as fully paid in partial satisfaction of consideration for the transfer of certain intellectual property rights from John D Cahill to the Company.

On 2 June 2000, the Company raised £1 million through the issue of 57,143 shares at £17.50 per share.

On 7 June 2000, the Company invested US\$1 million into Australia.com Pty Limited, an Australian Internet company, giving the Company a 6.2 per cent. holding.

On 8 June 2000, the Company concluded an agreement for the acquisition of 100 per cent. of the issued share capital of Mister Mail BV for an initial consideration of £300,000 plus 30,000 new shares in the Company. There are two further potential issues of up to 10,000 shares each contingent on future performance over the next 2 years.

On 24 July 2000 the Company completed the acquisition of Sonnet Internet Limited, a Company incorporated in England and Wales, specialising in the sale of leased line internet services to small businesses. The consideration was £350,000 representing £315,000 payable to Shareholders and the repayment of a loan of £35,000. Additionally a bonus of £50,000 was paid to one of the shareholders of Sonnet Internet Limited. The consideration and other payments were made in cash on completion.

On 25 July 2000 the Company completed the formation of Affinity Internet (Pty) Limited, a company incorporated in South Africa, which is a 100 per cent. owned subsidiary.

On 28 July 2000 the majority shareholders of e Recruitment Solutions Plc (the new holding company of E.Recruitment.com LTD following a corporate reorganisation) exercised their option to call for the Company to increase its shareholding from 10 per cent. to 20 per cent. at a further cost to Affinity of £400,000, bringing the total cost of investment to £800,000.

On 13 September 2000 the Company issued 30,000 Ordinary Shares to International Computers Limited for an aggregate consideration of £450,000 payable in cash on the date of issue.

33. Related party disclosures

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

The Group is charged quarterly by Bannacount Exports Limited for the hire of a photocopier, at the rate of £342 per quarter. The outstanding balance as at 31 March 2000 was £NIL (31 December 1999: £NIL).

During 1999, Group acquired a car from Bannaccount Exports Limited, a subsidiary company of Plumloch Investments (UK) Limited, which is controlled by Terry Plummer and Wayne Lochner and holds 3.3 per cent. of the issued share capital of the Company. 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 at the end of the year ended 31 December 1999. The £3,944 balance was outstanding as at 31 March 2000 and was subsequently paid on 22 September 2000.

In 1998, the Group received a loan from Bannaccount Exports Limited for £50,000 which was repaid in 1999.

As at 31 December 1999 the Group owed £948 to Plumloch Investments (UK) Limited in connection with minor expenses incurred on the Group's behalf. The £948 balance was outstanding as at 31 March 2000 and was subsequently paid on 22 September 2000.

The Group incurred charges of £450 for the three month period ended 31 March 2000 (£9,105 for the year to 31 December 1999) for accountancy services to Masons, Chartered Accountants. The 1999 expenditure was primarily in connection with the services of Stuart Barker prior to his appointment to the Board, but additionally for continuing payroll services. The brother of Stuart Barker is a partner in the firm. As at 31 March 2000 the group owed Masons, Chartered Accountants £212 (31 December 1999: £106).

The Group entered into transactions with TeleCentric Solutions Limited, a 50 per cent. equity investment, for the provision of payroll, pension and motor costs which amounted to £101,965 for the three month period ended 31 March 2000 (year ended 31 December 1999: £76,828). The Group also provided premises for TeleCentric Solutions Limited which resulted in a charge of £1,643 for the three month period ended 31 March 2000 (year ended 31 December 1999: £9,521). The Group also paid £523,058 of expenses on behalf of TeleCentric Solutions Limited, with no impact on the profit and loss account during the year ended 31 December 1999. Included within this expenditure was £237,500 paid to Unisys in connection with the Geneva billing platform. As at 31 March 2000 TeleCentric Solutions Limited owed the Group £77,080 (31 December 1999: £555,926).

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.

Yours faithfully
KPMG Audit Plc

PART 8

PRO FORMA STATEMENT OF NET ASSETS

The following unaudited pro forma statement of net assets of the Group at 30 June 2000 is prepared for illustrative purposes only and may not, because of its nature, give a true picture of the financial position of the Group. The statement is prepared to illustrate the effect on the net assets of the application of the proceeds from the issue of the New Ordinary Shares, as if the issue had taken place on 30 June 2000, and is based on the unaudited consolidated balance sheet of the Group as at 30 June 2000.

	<i>30 June 2000</i> £000	<i>Adjustments</i> £000	<i>Pro forma</i> £000
Fixed assets			
Intangible assets	11,591	—	11,591
Fixed asset investments	1,080	—	1,080
Tangible assets	1,770	—	1,770
Investments in joint ventures:			
Share of gross assets	3,083	—	3,083
Share of gross liabilities	(3,113)	—	(3,113)
	<u>14,411</u>	<u>—</u>	<u>14,411</u>
Current assets			
Stocks	200	—	200
Debtors	5,074	—	5,074
Cash at bank and in hand	12,498	21,256	33,754
	<u>17,772</u>	<u>21,256</u>	<u>39,028</u>
Creditors: amounts falling due within one year	<u>(6,072)</u>	<u>—</u>	<u>(6,072)</u>
Net current assets	<u>11,700</u>	<u>21,256</u>	<u>32,956</u>
Total assets less current liabilities	26,111	21,256	47,367
Creditors: amounts falling due after more than one year	<u>(213)</u>	<u>—</u>	<u>(213)</u>
Net assets	<u><u>25,898</u></u>	<u><u>21,256</u></u>	<u><u>47,154</u></u>

Notes

- (1) No account has been taken of trading since 30 June 2000.
- (2) The adjustment reflects the receipt of the approximate net proceeds of the Placing and Open Offer of £21,256 million after taking into account approximate expenses of £3.0 million. The net proceeds will be applied as set out in Parts 1, 4 and 10 of this document.
- (3) The net assets at 30 June 2000 are extracted without adjustment from the unaudited interim results for the six months to 30 June 2000 set out in Part 9 of this document.

The Directors
Affinity Internet Holdings PLC
Victoria House
2nd Floor
64 Paul Street
London
EC2A 4NA



8 Salisbury Square
London
EC4Y 8BB

The Directors
Charles Stanley & Company Limited
25 Luke Street
London
EC2A 4AR

28 September 2000

Dear Sirs

Affinity Internet Holdings PLC

We report on the *pro forma* net assets statement set out in Part 8 of the prospectus dated 28 September 2000, which has been prepared, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the Directors of Affinity Internet Holdings PLC to prepare the *pro forma* financial information in accordance with paragraph 12.29 of the Listing Rules of the UK Listing Authority.

It is our responsibility to form an opinion, as required by the Listing Rules of the UK Listing Authority, on the *pro forma* financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the *pro forma* financial information beyond that owed to those to whom those reports were addressed by us at the date of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on *pro forma* financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *pro forma* financial information with the Directors of Affinity Internet Holdings PLC.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion:

- the *pro forma* net assets statement has been properly compiled on the basis set out therein;
- such basis is consistent with the accounting policies of Affinity Internet Holdings PLC; and
- the adjustments are appropriate for the purposes of the *pro forma* net assets statement as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully

KPMG Audit Plc

PART 9

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2000

The following text is reproduced without material adjustment from the announcement made by the Company on 8 September 2000.

"CHAIRMAN'S STATEMENT

1. Introduction

Affinity Internet Holdings Plc today announces its accreditation as an "Independent Service Provider" on both the BT Cellnet and Vodafone UK networks. This follows a contract, whereby Affinity provides content for Vodafone's mobile Internet service offering, signed in June. These agreements conclude a period since 31 December that has seen some significant changes in the environment in which the Group's companies operate. Demand for the Group's Internet services from corporate clients continues to be high, and, whilst currently this is at lower levels than in the fevered conditions of February and early March of this year, the Directors believe that the Internet has now established itself as a genuine alternative to traditional business forums, and one to which individuals and businesses are increasingly turning.

Competition remains strong, and the access market has been dominated for much of the period by hype and speculation on un-metered access offerings, sparked by the early announcement of such services by Alta Vista. Consequently, the Company has noticed there is an element of confusion in the market as users come to terms with the variety of offers being made to them, and the repercussions of the withdrawal of certain offers that have proved to be unsustainable.

New access methods have been high profile during the period, with much speculation over WAP technology, and the promised delivery of ADSL services. Whilst the take up of WAP technology has been less than was perhaps anticipated, the advent of GPRS and "Third Generation" delivery systems will greatly enhance the services which can be provided to wireless devices, and we believe that this is when real growth in "m-commerce" should be seen.

2. Group activity

The Group has operated in a development phase throughout the first six months of 2000, with its predominant trading company, Virtual Internet Provider Limited (VIP), continuing to evolve to provide competitive access pricing models for its clients.

There has also been attention focused on establishing the businesses of the Company's newly created subsidiary companies, TeleCentric Solutions Limited (TCS) and EGO Maniacs.net Limited (EGO). Demand for services has also led the Group overseas with the provision of operating services in Holland and Belgium, and capability is being secured in Finland to service Scandinavia. We plan to offer services in South Africa shortly.

To complement the organic growth of the Group, two acquisitions were also completed during the period, with the purchase of Taxi Interactive Limited (TAXI) to act as the e-commerce vehicle of the Group and, towards the end of the period Mister Mail BV, a Dutch company, to provide content and a client base for the Dutch operation.

The total number of users of the Groups varied services (including e-mail accounts and multiple registrations) has increased to 1.45 million.

At the EGM in March, a resolution was passed by the members to take the Company off AIM and seek a full Listing on TechMARK. The adverse market conditions have been well publicised, and a short delay has been experienced in the listing process as a result of the Board's concerns over those market conditions. However, the Board remain committed to this process which they feel will deliver a higher profile for its operations in both the UK and overseas, provide increased access to future funding should this be required, and promote greater liquidity in the Company's shares. We envisage that the listing will be completed before the end of October.

3. Operational review

Branded Internet access

VIP has been continuing to grow its user base whilst facing up to the changing demands of the market place towards un-metered access offers. It has also spent time putting in place infrastructure and procedures to enable it to play an active role in the e-commerce and advertising markets, the benefit of which should be seen in future trading.

Since the end of last year VIP has seen the number of main account registrations increase from 601,271 to 804,304 at 31 March, and 964,223 at 30 June 2000, with an increase in the number of e-mail registrations from 892,451 to 1,183,235 at 31 March and 1,326,002 at 30 June 2000.

Interconnect revenue continues to be an important revenue stream prior to the introduction of un-metered access offers on a subscription basis. The Company has seen the rates of income made available to it by its telecommunications partners increase during the period, and interconnect revenues per end-user have risen from £1.75 at the start of the period to £2.38 at 30 June. Income from other sources amounted to 12.25 per cent. of total turnover during the period. Reliance on interconnect should fall as the planned advertising strategy is implemented, and if revenues from e-commerce transactions increase, as we expect, with overall activity.

The Company has experienced a slowing in the rates of growth in gross registrations and a small decline in active users since the end of the period, which we attribute mainly to the uncertainty surrounding access pricing created by un-metered access offerings in the market which have subsequently been withdrawn.

Significant investment has now taken place into the TransAffinity joint venture, and this service is planned to go live during the next 6 months. We believe there will be significant increase in the number of users as a result of the project, and the structure of the business proposition with Trans National is such that we expect to generate significantly higher revenues per end-user than is currently the case.

4. Telecommunications

TCS has been focused on implementing its billing platform, designed for the Company by Unisys, so that it becomes the first truly convergent billing platform capable of billing any utility, event or time based transaction. The concept of convergent billing was embraced by Powergen as they purchased a 50 per cent. share in the project for a potential £10 million. Since the link up with Powergen, TCS has completed development and trials of the billing platform and is currently billing over 21,000 customers.

TCS will provide the billing capability for VIP in connection with un-metered access subscriptions, and enable clients such as Powergen to deliver multiple services on a single, web-enabled invoice.

On Line entertainment

EGO continues to grow its reputation, primarily within the games market, with the community services it provides to Sega for the Dreamcast console users, and has recently signed a new contract for the extension of these services for a further 12 months.

EGO has also been working on two new projects for the delivery of bespoke branded games services, and is currently discussing its first launch with a number of potential clients.

5. E-Commerce

In January the Group acquired TAXI, the owner of the myTaxi product which VIP has promoted for some time. The acquisition was the first move by the Group into acquiring content in its own right, and the brandable myTaxi product also exists as a generic product, offering a shopping portal and shopping engine/price comparison.

We believe the first key to success for myTaxi is the number of on-line retailers that have signed affiliates status with the Company, followed by the number of visitors to its site and the number of registered users. Since the acquisition of TAXI the number of affiliated sites has risen from 127 at 1 January to 250 at 30 June.

Commissions to date have been very modest, but the non-financial data leads us to believe that we can expect to see significant growth over the next 6 month period.

6. Financial results

The turnover of the Group in the period, including our share of joint venture revenues, has increased to £4.55 million from £960,000 for the corresponding period last year, and resulted in a gross loss of £1.83 million compared with £1.1 million in the first 6 months of 1999. The Group's share of joint venture revenues accounted for £409,000 of total revenues (1999: nil).

Internet access Interconnect revenues accounted for £3.2 million (70 per cent.) of total group revenues for the period (June 1999: £534,000, 56 per cent).

The growth in the size of the Group has seen administrative expenses, which are primarily salaries, increase which together with the amortisation of goodwill on acquisitions of £1.22 million (1999: nil) has seen Group operating losses rise to £7 million (1999: £1.7 million).

Joint ventures reported a loss for the period of £954,000 reflecting the start-up phase that both TCS and TransAffinity were in during the period. TCS will be operational for the whole of the second half of this year, whilst TransAffinity will commence services during the second half.

The Group has realised a profit of £4.08 million on the sale of one half of its stake in TCS, which could rise to £9.08 million conditional on TCS achieving future performance targets. As a result of the capital gain on the part disposal of TCS a tax provision in respect of the first half of £1.07 million has been made.

During the period the Group utilised £6.4 million of cash reserves on operating activities, generated a net £5.97 million from returns on investments, financing, and acquisitions and disposals, and spent £2 million on assets and investments.

At the 30 June 2000 the Group had cash reserves (excluding cash invested and held by joint ventures) of £12.5 million (June 1999: £533,000).

7. Current trading and future developments

The Group is focused on earning the future revenues required to generate operating profits, and to expand on the services it is able to provide to its clients and customers.

As part of the overall suite of products, selling branded mobile telephony minutes has always been a key feature of our plans, and VIP has today announced its service provider status with both Vodafone UK and BT Cellnet. Together with TCS, this will allow the Group to sell, via its clients, branded mobile telephones, which can be then also be billed to the same invoice as other services, and therefore can offer cross product discounts and flexible pricing models.

The Group has recently reached agreement with Engage Technologies Limited for advertising services to begin the process of revenue generation from this source.

VIP will shortly launch its first un-metered access service, which will be followed by similar offerings for VIP clients.

TCS now has a contract in place to allow clients the ability to offer electricity and gas to their customers, bringing together fixed line telephony, Internet access, mobile calls, electricity and gas onto a single household invoice, whilst allowing cross product discounting and bundling of loyalty points.

On 24 July 2000 the Company acquired Sonnet Internet Limited, a small private company specialising in leased line Internet access and hosting services for small businesses and heavy private users. The Board believes the Group's position within the market will enhance the services that Sonnet is able to provide, and it is envisaged that forthcoming products such as ADSL will be made available through Sonnet.

Affinity Internet Holdings Plc continues to position itself at the heart of the converging technologies of telecommunications, broadcasting and Internet services with a view to providing services to established brands. Demand for Internet services looks set to continue, and we believe that Affinity is well placed to take advantage of the revenue earning opportunities as spending moves from the established economy to the so-called new economy of on-line trade.

Terry Plummer
Chairman

Consolidated profit and loss account

The profit and loss account for the 6 months to 30 June 2000 is set out below:

		<i>Six months ended 30 June 1999</i>	<i>Year to 31 December 1999</i>	<i>Six months ended 30 June 2000</i>
	<i>Notes</i>	<i>Unaudited £000</i>	<i>Audited £000</i>	<i>Unaudited £000</i>
Turnover		960	3,424	4,547
Less: Group share of joint venture turnover		—	—	(409)
Group turnover		960	3,424	4,138
Cost of sales		(2,068)	(7,126)	(5,965)
Gross loss		(1,108)	(3,702)	(1,827)
Administrative expenses		(615)	(5,437)	(3,950)
Amortisation		—	(8)	(1,224)
Group operating loss		(1,723)	(9,147)	(7,001)
Group share of joint venture operating losses		—	—	(954)
		(1,723)	(9,147)	(7,955)
Interest receivable		10	14	456
Interest payable and similar charges		(32)	(39)	(14)
Profit on disposal of 50 per cent. of subsidiary		—	—	4,077
Loss on ordinary activities before taxation		(1,745)	(9,172)	(3,436)
Taxation	4	—	—	(1,069)
Retained loss for the period		<u>(1,745)</u>	<u>(9,172)</u>	<u>(4,505)</u>
Earnings per share				
Basic loss per share	3	11.3p	66.3p	20.7p
Full diluted loss per share	3	11.3p	66.3p	20.4p

All activities relate to continuing operations and the total figures include the following amounts relating to acquisitions: Turnover £12,000, cost of sales £101,000, and net operating expenses £405,000 (1999: nil).

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

Balance sheet

The balance sheet as at 30 June 2000 is set out below:

		30 June 1999 Unaudited £000	31 December 1999 Audited £000	30 June 2000 Unaudited £000
	Notes			
Fixed assets				
Intangible fixed assets		150	41	11,591
Fixed asset investments		—	—	1,080
Tangible fixed assets		162	2,025	1,770
Investment in Joint Ventures:				
Share of joint venture gross assets		—	—	3,083
Share of joint venture gross liabilities		—	—	(3,113)
		<u>312</u>	<u>2,066</u>	<u>14,411</u>
Current assets				
Stock		—	33	200
Debtors		617	3,339	5,074
Investments		—	400	—
Cash at bank and in hand		<u>533</u>	<u>14,963</u>	<u>12,498</u>
		1,150	18,735	17,772
Creditors: amounts falling due within one year		<u>(1,381)</u>	<u>(3,644)</u>	<u>(6,072)</u>
Net current assets/(liabilities)		<u>(231)</u>	<u>15,091</u>	<u>11,700</u>
Total assets less current liabilities		81	17,157	26,111
Creditors: amounts falling due after more than one year		<u>(173)</u>	<u>(189)</u>	<u>(213)</u>
Net (liabilities)/assets		<u>(92)</u>	<u>16,968</u>	<u>25,898</u>
Capital and reserves				
Share capital account	5	1,822	2,135	2,180
Shares to be issued	5	—	—	5,970
Share premium account	5	2,016	23,079	24,521
Other reserves	5	(1,264)	(1,265)	4,713
Profit and loss account	5	<u>(2,666)</u>	<u>(6,981)</u>	<u>(11,486)</u>
Equity shareholders' (deficit)/funds	6	<u>(92)</u>	<u>16,968</u>	<u>25,898</u>

Approved by the Board of Directors on 7 September 2000.

Cash flow statement

The group cash flow statement for the six months ended 30 June 2000 is set out below:

		<i>Six months ended 30 June 1999</i>	<i>Year ended 31 December 1999</i>	<i>Six months ended 30 June 2000</i>
	<i>Notes</i>	<i>Unaudited £000</i>	<i>Audited £000</i>	<i>Unaudited £000</i>
Cash flow from operating activities	8	(1,436)	(6,667)	(6,412)
Returns on investments and servicing of finance	9	(22)	(25)	442
Capital expenditure	9	(189)	(2,091)	(2,024)
Acquisitions and disposals	9	—	9	4,445
Cash outflow before financing		(1,647)	(8,774)	(3,549)
Financing	9	2,460	24,017	1,084
Increase/(decrease) in cash in the period		<u>813</u>	<u>15,243</u>	<u>(2,465)</u>
Reconciliation of net cash flow to movement in net funds/(debt)				
Increase/(decrease) in cash in the period	10	813	15,243	(2,465)
Cash inflow from increase in debt and lease finance	10	<u>12</u>	<u>42</u>	<u>19</u>
Change in net debt resulting from cash flows	10	825	15,285	(2,446)
New finance leases	10	<u>(71)</u>	<u>(263)</u>	<u>(102)</u>
Movement in net funds/(debt) in the period	10	754	15,022	(2,548)
Net (debt)/funds at the start of the period	10	<u>(337)</u>	<u>(337)</u>	<u>14,685</u>
Net funds at the end of the period	10	<u>417</u>	<u>14,685</u>	<u>12,137</u>

Notes to the financial information

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items that 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 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 treatment the consolidated accounts of Affinity Internet Holdings Group 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 1985 set out certain conditions to be met in order that merger accounting can be adopted. Not all of these conditions were 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 30 June 2000. The merger method of accounting has been adopted for the Group reconstruction. Under this method, the results of the subsidiary undertaking acquired (VIP) have been included in the consolidated figures as if the undertaking has always been a part of the Group. Acquisition accounting has been applied in respect of all other acquisitions during the period. Under this method of accounting the results of the acquired companies have been included in the consolidated profit and loss account from the date of acquisition.

The interim statements have been prepared using the same accounting policies as set out in the Annual Report and Accounts for the financial year ended 31 December 1999.

2. Segmental information

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

	Internet services			Telecommunications			Total		
	Six months to June 1999 £000	Year to December 1999 £000	Six months to June 2000 £000	Six months to June 1999 £000	Year to December 1999 £000	Six months to June 2000 £000	Six months to June 1999 £000	Year to December 1999 £000	Six months to June 2000 £000
Turnover	960	3,130	3,987	—	294	560	960	3,424	4,547
Less share of joint venture turnover	—	—	—	—	—	(409)	—	—	(409)
Group turnover	<u>960</u>	<u>3,130</u>	<u>3,987</u>	<u>—</u>	<u>294</u>	<u>151</u>	<u>960</u>	<u>3,424</u>	<u>4,138</u>
Pre exceptional operating loss	(1,723)	(5,471)	(4,749)	—	(482)	(1,134)	(1,723)	(5,953)	(5,883)
Exceptional item	—	(2,903)	—	—	(106)	—	—	(3,009)	—
Segment operating loss	<u>(1,723)</u>	<u>(8,374)</u>	<u>(4,749)</u>	<u>—</u>	<u>(588)</u>	<u>(1,134)</u>	<u>(1,723)</u>	<u>(8,962)</u>	<u>(5,883)</u>
Corporate costs	—	—	—	—	—	—	—	(81)	(2,072)
Exceptional item	—	—	—	—	—	—	—	(104)	—
Total operating loss	—	—	—	—	—	—	<u>(1,723)</u>	<u>(9,147)</u>	<u>(7,955)</u>
Net assets/(liabilities)									
Segment net assets/(liabilities)	(92)	14,243	18,046	—	(433)	575	(92)	13,810	18,621
Corporate net assets	—	—	—	—	—	—	—	3,158	7,277
Total net assets/(liabilities)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(92)</u>	<u>16,968</u>	<u>25,898</u>

3. Earnings per share

The basic earning per ordinary share is calculated in accordance with Financial Reporting Standard No 14 on the loss for the period on ordinary shares of 21,711,859 (1999: 13,830,018) being the weighted average number of ordinary shares in issue. The fully diluted EPS has been calculated on 22,098,122 shares (1999: 13,830,018) being the weighted average of diluted ordinary shares in issue during the period ended 30 June 2000.

4. Taxation

The disposal of one half of Telecentric Solutions Limited resulted in a capital gain of £8.75 million, and a tax provision, after trading losses for the six months to 30 June 2000, of £1,069,000 has been made. The Directors expect this gain to be relieved by trading losses arising in the second half of the year ended 31 December 2000.

5. Reserves

	Share Capital £000	Shares to be issued £000	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 January 2000	2,135	—	23,079	(1,265)	(6,981)
Shares issued by the company	45	—	—	—	—
Shares to be issued on acquisition	—	5,970	—	—	—
Premium on shares issues, less expenses	—	—	1,442	—	—
Merger relief on acquisition	—	—	—	5,978	—
Loss for the period	—	—	—	—	(4,505)
At 30 June 2000	<u>2,180</u>	<u>5,970</u>	<u>24,521</u>	<u>4,713</u>	<u>(11,486)</u>

6. Reconciliation of movements in shareholders' funds

	Six months ended 30 June 1999 £000	Year ended 31 December 1999 £000	Six months ended 30 June 2000 £000
Loss for the financial period	(1,745)	(9,172)	(4,505)
New shares issued (net of issue costs)	2,472	23,846	7,465
New shares to be issued on acquisition	—	—	5,970
Compensation charge for shares issued to employees	—	3,113	—
	<u>727</u>	<u>17,787</u>	<u>8,930</u>
Opening shareholders' (deficit)/funds	(819)	(819)	16,968
Closing shareholders' (deficit)/funds	<u>(92)</u>	<u>16,968</u>	<u>25,898</u>

7. Acquisitions

On 6 January 2000, the Company acquired 100 per cent. of the issued share capital of Taxi Interactive Limited, together with its operating subsidiary myTaxi Limited, for an immediate consideration of 353,741 ordinary shares and deferred consideration of 351,175 ordinary shares at a price of £17 per share. The deferred consideration will be satisfied on the first anniversary of completion, subject to reduction by any valid claims under the warranties or the tax deed.

On 8 June 2000 the Company acquired 100 per cent. of the issued share capital of Mister Mail BV for initial consideration of 30,000 ordinary shares at a price of £12.50 and cash of £300,000.

8. Reconciliation of operating loss to net cash inflow from operating activities

	Six months ended 30 June 1999 £000	Year ended 31 December 1999 £000	Six months ended 30 June 2000 £000
Operating loss	(1,723)	(9,147)	(7,001)
Depreciation and amortisation	24	173	1,457
Exceptional item	—	3,113	—
Increase in stocks	—	(33)	(212)
Increase in debtors	(545)	(3,241)	(2,124)
Increase in creditors	808	2,468	1,468
Net cash outflow from operating activities	<u>(1,436)</u>	<u>(6,667)</u>	<u>(6,412)</u>

9. Analysis of cash flows

	Six months ended 30 June 1999 £000	Year ended 31 December 1999 £000	Six months ended 30 June 2000 £000
Returns on investments and servicing of finance			
Interest received	10	14	456
Interest paid	(32)	(39)	(14)
	<u>(22)</u>	<u>(25)</u>	<u>442</u>
Capital expenditure			
Purchase of tangible fixed assets	(39)	(2,091)	(1,347)
Purchase of fixed asset investments	—	—	(680)
Purchase of intangible fixed assets	(150)	—	—
Proceeds from sale of fixed assets	—	—	3
	<u>(189)</u>	<u>(2,091)</u>	<u>(2,024)</u>
Acquisitions and disposals			
Net cash acquired with subsidiary	—	9	(294)
Proceeds from sale of subsidiary	—	—	4,739
	<u>—</u>	<u>9</u>	<u>4,445</u>
Financing			
Issue of new shares (net of expenses)	2,472	23,796	1,001
Finance leases inception during the period	—	263	102
Capital element of finance lease rental payments	(12)	(42)	(19)
	<u>2,460</u>	<u>24,017</u>	<u>1,084</u>

10. Analysis of net debt

	Cash flow £000	Other non-cash changes £000	At 1 January 2000 £000	At 30 June 2000 £000
Cash in hand and at bank	(2,465)	—	14,963	12,498
Finance leases	19	(102)	(278)	(361)
Total	<u>(2,446)</u>	<u>(102)</u>	<u>14,685</u>	<u>12,137</u>

11. Post balance sheet events

On 24 July 2000 the Company completed the acquisition of Sonnet Internet Limited, a Company incorporated in England and Wales, specialising in the sale of leased line Internet services to small businesses. The consideration of approximately £400,000 was settled in cash.

On 25 July 2000 the Company completed the formation of Affinity Internet (Pty) Limited, a company incorporated in South Africa, which is a 100 per cent. owned subsidiary.

On 28 July 2000 e Recruitment Solutions Plc exercised its option to call for the Company to increase its shareholding from 10 per cent. to 20 per cent. at a further cost of £400,000, bringing the total cost of the investment to £800,000.

Independent review by KPMG Audit Plc to Affinity Internet Holdings Plc

Introduction

We have been instructed by the Company to review the financial information set out on pages 6 to 13 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review of the work performed

We conducted our work in accordance with the guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board. A review consists primarily of making enquiries of group management and applying analytical procedures to the financial information and the underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore a review provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion of the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2000.

KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB

7 September 2000"

PART 10

ADDITIONAL INFORMATION

1. Incorporation

- 1.1 The Company was incorporated and registered in England and Wales on 10 December 1998 under the Companies Act 1985 as a public limited company with registered number 3681853, with the name YPCS 77 PLC. The name of the Company was changed to Affinity Internet Holdings PLC on 17 March 1999.
- 1.2 The Company operates under the Companies Act 1985 and the regulations made under that Act.
- 1.3 The liability of the members of the Company is limited.
- 1.4 The registered office and principal place of business of the Company is at Victoria House, 2nd Floor, 64 Paul Street, London EC2A 4NA.
- 1.5 On 7 April 1999, the Registrar of Companies issued a certificate under Section 117 of the Act to enable the Company to commence business.

2. Share capital

The authorised and issued share capital of the Company at the date of this document is set out below:

<i>Authorised</i>	<i>Issued and fully paid</i>
£5,000,000 divided into 50,000,000 Ordinary Shares of 10p each	£2,183,036.50 divided into 21,830,365 Ordinary Shares of 10p each

The authorised and issued share capital of the Company, as it will be on Admission, is set out below:

<i>Authorised</i>	<i>Issued and fully paid</i>
£5,000,000 divided into 50,000,000 Ordinary Shares of 10p each	£2,425,596.10 divided into 24,255,961 Ordinary Shares of 10p each

Share capital development

- 2.1 The Company was incorporated with an authorised share capital of £100,000 divided into 100,000 ordinary shares of £1 each. The following changes in the authorised and issued share capital of the Company have occurred since the date of incorporation.
- 2.2 On 19 March 1999, the two nil paid ordinary shares of the Company agreed to be taken by the subscribers on incorporation were transferred to Terence Plummer and Wayne Lochner respectively, who each paid 25p to the Company, being one quarter of the amount due and unpaid in relation to the subscriber shares transferred into their respective names. On 26 March 1999, Terence Plummer and Wayne Lochner each further subscribed for 24,999 ordinary shares of £1 each in the capital of the Company, paid up as to one quarter in value in the amount of £6,249.75 for each person (the unpaid balance of which value was satisfied in consideration of the transfer to the Company of Terence Plummer's and Wayne Lochner's ordinary shares in the capital of VIP pursuant to the terms of a share for share exchange agreement (the "Share Exchange Agreement") dated 9 April 1999 and executed as a deed, further details of which are set out in paragraph 7.3 of this Part 10). The issued share capital of the Company as at 31 March 1999 was accordingly 50,000 ordinary shares of £1 each all of which were paid up as to 25p each. Pursuant to the Share Exchange Agreement the Company acquired all the issued ordinary shares of VIP, in consideration of the issue of ordinary shares in the Company. Pursuant to the Share Exchange Agreement the Company issued 13,786,000 Ordinary Shares, credited as fully paid, to the former shareholders of VIP.
- 2.3 By ordinary and special resolutions of the Company passed on 1 April 1999:
 - (i) the authorised share capital of the Company was increased from £100,000 to £5,000,000 by the creation of 4,900,000 new ordinary shares of £1 each;

- (ii) the issued and unissued authorised share capital of the Company was subdivided into 50,000,000 Ordinary Shares of 10p each;
- (iii) the Directors were generally and unconditionally authorised, for the purposes of section 80 of the Act, to allot relevant securities (as defined in section 80(2) of the Act) of the Company up to a maximum amount of £5,000,000. This authority was expressed to expire 15 months from the date on which this resolution was passed, but the Company was empowered, before this authority expired, to make an offer or agreement which would or might require relevant securities to be allotted after the authority expired; and
- (iv) the Directors were empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act (which, if not disapplied, confers on shareholders rights of pre-emption in respect of allotments of equity securities for cash) did not apply to the allotment. The power conferred was limited to:
 - (a) the allotment of equity securities up to an aggregate nominal amount of £75,896 in satisfaction of warrants to subscribe granted in favour of Singers by deed executed on 1 April 1999 or such greater number, not exceeding an aggregate nominal amount of £91,075, as is required to satisfy such warrants;
 - (b) the allotment of equity securities up to an aggregate nominal amount of £91,075; and
 - (c) the allotment of equity securities by way of rights issue, open offer or otherwise to the holders of Ordinary Shares in proportion (as nearly as may be) to their holdings of Ordinary Shares subject to such exclusions or other arrangements as the Directors consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or requirements of, any regulatory body or any stock exchange in any territory.

This authority was expressed to expire 15 months from the date on which this resolution was passed, but the Company was empowered, before this authority expired, to make an offer or agreement which would or might require relevant securities to be allotted after the authority expired.

- 2.4 On 21 April 1999 the Company issued 3,929,000 Ordinary Shares for cash for a total consideration of £2,750,000 (before expenses and commissions) to placees procured by Charles Stanley pursuant to a placing agreement between (1) the Company (2) the directors and (3) Charles Stanley dated 12 April 1999.
- 2.5 On 17 September 1999 the Company issued 24,390 Ordinary Shares (fully paid) to Matthew Sullivan in consideration of the transfer to the Company of the whole of the issued share capital of Brightfibre. The Ordinary Shares were issued at a price of £2.05 each to satisfy the total consideration due of £50,000.
- 2.6 On 6 October 1999 the Company issued 81,172 Ordinary Shares to LPS Investments Proprietary Limited and Affinity Australia for a total consideration of £200,000 payable in cash.
- 2.7 On 22 November 1999 the Company issued 319,250 Ordinary Shares to various of its employees (including 8,300 issued to Peter Howard-Dobson, a director) for a total cash consideration of £1,531,774.
- 2.8 On 22 November 1999 the Company issued 75,000 Ordinary Shares to Anthony Daltrey for a total cash consideration of £355,000 and in full and final settlement of a dispute with Mr Daltrey arising out of the placing referred to in paragraph 2.4 of this Part 10.
- 2.9 By special resolution of the Company passed on 21 December 1999, the Directors were empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash, as authorised by resolution 3 of the resolutions passed at an extraordinary meeting

of the Company held on 1 April 1999, as if section 89(1) of the Act did not apply to the allotment. The power conferred was limited to:

- (i) the placing of 1,785,188 Ordinary Shares at a price of 1150 pence per share on the terms of a placing agreement between (1) the Company and (2) Charles Stanley dated 26 November 1999; and
 - (ii) any other issue of equity securities up to an aggregate nominal amount of £500,000, such authority to expire 15 months from the date on which this resolution was passed, but the Company was empowered, before the authority expired, to make an offer or agreement which would or might require relevant securities to be allotted after the authority expired and the Board could allot equity securities in pursuance of such an offer or agreement as if the power thereby conferred had not expired.
- 2.10 On 22 December 1999 the Company issued 1,785,188 Ordinary Shares for cash for a total consideration of £20,529,662 (before expenses and commissions) to placees procured by Charles Stanley pursuant to a placing agreement between (1) the Company and (2) Charles Stanley dated 26 November 1999 referred to in paragraph 7.4 of this Part 10.
- 2.11 On 31 December 1999 the Company issued 854,166 Ordinary Shares to Singers for a total consideration of £85,416.60. The Ordinary Shares were issued to Singers following the exercise by Singers of warrants, details of which are set out in paragraph 7.2 of this Part 10.
- 2.12 On 6 January 2000 the Company issued a total of 353,741 Ordinary Shares credited as fully paid in satisfaction of the initial consideration payable for the purchase of the whole of the issued share capital of TAXI pursuant to the agreement described in paragraph 7.6 of this Part 10.
- 2.13 On 28 March 2000 the Company issued 1,837 Ordinary Shares to John D. Cahill credited as fully paid in satisfaction of the sum of £76,000 due as consideration for the transfer of intellectual property rights relating to software from John D. Cahill to the Company.
- 2.14 On 22 May 2000 the Company issued 3,478 Ordinary Shares to John D. Cahill credited as fully paid in partial satisfaction of consideration for the transfer of certain intellectual property rights from John D. Cahill to the Company.
- 2.15 On 2 June 2000 the Company issued 57,143 Ordinary Shares to Trans National for a total consideration of £1,000,000 payable in cash.
- 2.16 On 8 June 2000 the Company issued 30,000 Ordinary Shares credited as fully paid in partial satisfaction of the initial consideration payable for the purchase of the whole of the issued share capital of Mister Mail pursuant to the agreement described in paragraph 7.11 of this Part 10.
- 2.17 On 13 September 2000 the Company issued 30,000 Ordinary Shares to ICL for an aggregate consideration of £450,000 payable in cash on the date of issue.
- 2.18 By ordinary resolution of the Company passed on 9 June 2000, the Directors were generally and unconditionally authorised, for the purposes of section 80 of the Act, to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) of the Company up to a maximum aggregate nominal value of £1,000,000.
- 2.19 By special resolution of the Company passed on 9 June 2000 the Directors were authorised, pursuant to section 95 of the Act, for the period commencing on the date of the passing of the resolution and expiring at the commencement of the next annual general meeting of the Company or on the date 15 months after the passing of the Resolution (whichever is the earlier) to allot, in substitution for the authority previously conferred upon the Directors under section 80 of the Act by the resolution passed on 1 April 1999, as referred to in paragraph 2.3 of this Part 10, and as if section 89(1) of the Act did not apply to such allotment:
- (i) equity securities (as defined in section 94(2) of the Act) in connection with an issue by way of rights (including, without limitation, under a rights issue, open offer or similar arrangements);
 - (ii) any number and amount of equity securities otherwise than pursuant to (i) above up to a maximum aggregate nominal amount equal to £110,000.

2.20 By the special resolution to be proposed at the Extraordinary General Meeting:

- (i) in addition to any existing authority, the Directors will be authorised in accordance with section 80 of the Act to exercise all powers of the Company to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal amount of £24,255,960;
- (ii) in addition to any existing authority, the Directors will be authorised in accordance with section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) pursuant to the authority conferred by paragraph (i) of the resolution as if section 89(1) of the Act did not apply to the allotment, provided that the authority shall be limited to the allotment of 2,425,596 New Ordinary Shares in connection with the Placing and Open Offer.

2.21 Immediately following the Placing and Open Offer, the authorised share capital of the Company will be £5,000,000 divided into 50,000,000 Ordinary Shares, of which 24,255,961 will be issued and fully paid and 25,744,039 will remain unissued. Of the unissued share capital, the equivalent of 10 per cent. of the issued share capital of the Company will be reserved for issue in respect of options granted or to be granted under the Share Option Schemes, details of which are set out in paragraph 3 of this Part 10.

2.22 On Admission the Ordinary Shares will rank *pari passu* in all respects.

2.23 Save for Ordinary Shares reserved for issue under the Share Option Schemes, no material issue of shares (other than to Shareholders *pro rata* to their shareholdings) will be made by the Company within one year of the date of this document without the prior approval of the Company in general meeting.

2.24 There are no listed or unlisted securities issued by the Company not representing share capital.

2.25 Application for admission to the Official List and to trading on the London Stock Exchange is being made in respect of all the issued Ordinary Shares and the New Ordinary Shares. Other than the current application for admission of such Ordinary Shares and the New Ordinary Shares to the Official List and to trading on the London Stock Exchange, the Ordinary Shares will not be admitted to dealings on any recognised investment exchange nor has any application for such admission been made, nor are there intended to be other arrangements for there to be dealings in the Ordinary Shares. The Ordinary Shares currently in issue are admitted to trading on AIM. The Company will apply for trading on AIM to cease simultaneously with Admission.

2.26 Save as disclosed in this Part 10 of this document, no share or loan capital of any member of the Group has been issued or agreed to be issued or is proposed to be issued, fully or partly paid, either for cash or a non-cash consideration; and no commissions, discounts or other special terms have been granted by any member of the Group in connection with the issue of any share or loan capital by any member of the Group.

3. The Share Option Schemes

On 29 March 2000, the Company introduced the Share Option Schemes. The unapproved Share Option Scheme is known as the Affinity Internet Holdings PLC Unapproved Scheme ("the Unapproved Scheme"). The Inland Revenue approved Share Option Scheme is known as the Affinity Internet Holdings PLC Approved Share Option Scheme (the "Approved Scheme").

3.1 Approved Scheme

Options may be granted under the Approved Scheme by the Remuneration Committee of the Company ("the Committee") or the trustee of any employee share ownership trust as may be established by the Company in the future (in either case "the Grantor"). The principal features of the Approved Scheme are:

3.1.1 Eligibility

Only those directors or employees of the Group who devote substantially all their working time to the business of the Group and who are not within two years of their normal retirement date will be eligible to participate.

3.1.2 *Exercise price*

The exercise price for an option will be determined by the Grantor but may not be less than the higher of the nominal value of an ordinary share (if the option is an option to subscribe for ordinary shares) and its market value. Market value is subject to agreement with the Inland Revenue, unless the Company's shares are admitted to listing, in which case it shall be the closing middle market quotation of a share on the day prior to grant.

3.1.3 *Grant of options*

Options may be granted during a period of 42 days commencing on the day on which the Approved Scheme is approved by the Inland Revenue. Thereafter, options may be granted in the 42 day period after the announcement of the Company's interim and annual results. In exceptional circumstances the Board may permit the grant of options outside these periods. Options cannot be granted after the tenth anniversary of the date on which the Approved Scheme is adopted.

There is provision within the Approved Scheme for the exercise of options to be subject to satisfaction of an objective performance condition imposed by the Committee at the date of grant.

3.1.4 *Individual limits*

An option may only be granted to an individual if the maximum aggregate exercise price of subsisting options granted to the individual under the Approved Scheme or any other Inland Revenue approved discretionary share option scheme (established by the Company or any company which is associated with it) does not exceed £30,000.

3.1.5 *Exercise of options*

Options may normally only be exercised between the third and tenth anniversary of the date of grant.

If an option holder dies or ceases employment due to injury, ill health, disability, redundancy, retirement, or because the company which employs him or with which he holds office leaves the Group or because the business to which his office or employment relates is transferred outside the Group, his options may be exercised in the period which ends six months from the date his employment ends, or twelve months in the case of death. At the end of this period the options will lapse. The number of shares which the option holder is able to acquire in these circumstances depends on when the cessation of employment occurs. If the cessation occurs before the first anniversary of the date of grant of the option no shares will be acquired. If the cessation occurs between the first and second anniversaries of the date of grant the option holder will be able to acquire one third of the shares under option. If the cessation occurs between the second and third anniversaries of the date of grant the option holder will be able to acquire two thirds of the shares under option, and for cessations after the third anniversary the option will be exercisable in full.

If an option holder ceases employment for any other reason than those set out above his options will normally lapse on cessation unless the Board exercises its discretion to allow his options to be exercised within six months of cessation.

Options will also become exercisable in full during limited periods if the Company is taken over, wound up or if there is a scheme of reconstruction.

Options may not be exercised in any event more than ten years after the date of grant. Options may be exercised in whole or in part.

3.1.6 *Substitution of options*

In certain circumstances options may be rolled over into options over shares of, for example, a company which purchases the Company.

3.1.7 *Variation of share capital*

On a variation of the Company's share capital by way of capitalisation or rights issue, sub-division, consolidation or a reduction, the exercise price and the number of shares subject to option can be varied at the discretion of the Board subject to certification from the Company's auditors that in their opinion the variation is fair and reasonable and subject to the prior agreement of the Inland Revenue. The aggregate numbers of shares noted in paragraph 3.3 below will also be adjusted to reflect any variation of the share capital of the Company in such manner as the auditors confirm in writing to be, in their opinion, fair and reasonable.

3.1.8 *General*

Shares allotted on the exercise of options rank *pari passu* with shares in issue at the date of allotment but shall not rank for dividends for which the record date precedes the date of exercise of the option.

The Grantor must have sufficient available ordinary share capital to meet the exercise of options.

Options may not be transferred or charged and if an option holder attempts to do so his options will lapse immediately.

If an option holder ceases to be employed by the Company he will not be entitled to compensation for the loss of any options.

Benefits under the Approved Scheme will not be pensionable.

The Approved Scheme will terminate on the tenth anniversary of its adoption or upon such earlier date as the Board may determine.

3.1.9 *Amending the Approved Scheme*

The Board will have power to administer, interpret and amend the Approved Scheme. No amendment may be made to provisions relating to:

- (a) the eligibility conditions;
- (b) the limit rules noted in paragraph 3.3 below and the variation of share capital rules noted in paragraph 3.1.7 above;
- (c) the rules governing the terms of an option holder's entitlement to, and terms of, the options to be received by option holders; or
- (d) the maximum entitlement for any one option holder

to the advantage of option holders without the prior approval of Shareholders in a general meeting (except for minor amendments to benefit the administration of the Approved Scheme or to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for option holders or the Group). All amendments require the prior approval of the Inland Revenue.

3.2 *The Unapproved Scheme*

The Unapproved Scheme is similar to the Approved Scheme except that:

- 3.2.1 it is not approved by the Inland Revenue, so options cannot qualify for favourable tax treatment;
- 3.2.2 the £30,000 limit outlined in paragraph 3.1.4 above does not apply;
- 3.2.3 adjustments to options and amendments to the scheme do not require the prior consent of the Inland Revenue; and

- 3.2.4 the Board may establish sub-schemes based on the Unapproved Scheme but modified to take account of local tax, exchange control or securities laws in different jurisdictions, but any shares allocated under such arrangements will be counted in the individual and overall limits.

3.3 Limits on share capital issued under the Share Option Schemes

In any ten year period not more than ten per cent. of the issued share capital for the time being may in aggregate be issued or be issuable under all employees' share schemes adopted by the Company on or after the date of the extraordinary general meeting held on 29 March 2000.

For these purposes options which lapse unexercised (or are surrendered) are ignored in calculating the limits.

3.4 Options granted under the Share Option Schemes

- 3.4.1 At the date of this document the following options have been granted for no consideration to directors and are outstanding.

Name	Vesting date	Exercise price £	Number of Ordinary Shares	Scheme
Robert Southward	2 June 2003	16.50	20,000	Unapproved
Allan Redfern	2 June 2003	16.50	20,000	Unapproved
Stuart Barker	2 June 2003	16.50	15,000	Unapproved

- 3.4.2 At the date of this document, save as disclosed above, the following options have been granted for no consideration to employees of the Group and are outstanding.

Vesting date	Exercise price £	Number of Ordinary Shares	Scheme
2 June 2003	16.50	284,500	Unapproved

- 3.5 Except as set out above, the Company has no other options in issue and neither the Company nor any member of the Group has put, or agreed conditionally or unconditionally to put, any share or loan capital under option.

4. Memorandum and Articles of Association

- 4.1 The Memorandum of Association of the Company provides that the Company's principal objects are to carry on the business of a holding company and to carry on the business of an ISP. The objects of the Company are set out in full in paragraph 4 of its Memorandum of Association which is available for inspection at the address specified in paragraph 13 below.

- 4.2 The current Articles of Association of the Company were adopted on 1 April 1999. They contain, *inter alia*, provisions to the following effect:

4.2.1 *Share rights*

Subject to the Act and to any special rights conferred on the holders of any shares or class of shares, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if and to the extent that there is no resolution making specific provision) as the Directors may decide.

4.2.2 *Voting*

Subject to any special rights or restrictions as to voting attached to any share by or in accordance with the Articles of Association on a show of hands every member who is present in person shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder. A member is not

entitled to vote in respect of shares held by him unless all calls or other sums presently payable by him in respect of those shares have been paid. A member is not entitled to vote in respect of shares held by him in relation to which he or any person appearing to be interested in such shares has been served with a notice given by the Directors in their absolute discretion under the Act ("a statutory notice") requiring him or such person to give details of any interest in any shares in the Company, and he or such person has failed to comply with such notice within the specified period and the member has accordingly been served with a restriction notice by the Company.

4.2.3 *Variation of rights*

Subject to the Act, whenever the share capital of the Company is divided into different classes of shares, rights attached to any class of shares may be varied with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of that class, or the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At every such separate meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of the class and at an adjourned meeting one holder present in person or by proxy (whatever the number of shares held by him) may constitute a quorum.

4.2.4 *Transfer of shares*

Transfers of shares may be effected by an instrument of transfer in the usual common form or in any other manner as the Directors may approve. Any written instrument of transfer of a share shall be signed by or on behalf of the transferor (and the transferee in the case of a partly paid share) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof.

The shares are freely transferable save that the Directors may decline to register any transfer unless the written instrument of transfer (i) is lodged with the Company duly stamped, accompanied by the certificate for the shares to which it relates and such evidence as the Directors may reasonably require to show the right of the transferor to make the transfer, (ii) is in respect of only one class of share and (iii) is in favour of not more than four transferees. The Directors may in their absolute discretion and without assigning any reason therefor decline to register the transfer of any share which is not a fully paid share.

Where a holder of shares which represent 0.25 per cent. or more of the class of shares concerned has been served with a restriction notice after there has been a failure to provide the Company with information required by a statutory notice, no transfer of any shares held by the holder shall be registered unless the exception contained in the Articles of Association applies.

Any shares in the Company may be held in uncertificated form and title to such shares may be transferred by means of a relevant system in accordance with the Regulations.

4.2.5 *Return of capital on winding up*

The Board shall have power in the name and on behalf of the Company to present a petition to the Court for the Company to be wound up.

Subject to the rights attached to any shares issued on any special terms and conditions, on a return of assets on a winding up or otherwise the surplus assets of the Company after discharge of its liabilities shall belong to and be distributed amongst the holders of Ordinary Shares in proportion to the number of such shares held by them respectively after deducting in respect of any Ordinary Share not fully paid up the amount remaining unpaid thereon (whether or not then payable).

If the Company shall be wound up, the 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 kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such values as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is any liability.

4.2.6 *Redemption and pre-emption*

There are no redemption or pre-emption rights on transfer attaching to the Ordinary Shares.

4.2.7 *Alteration of share capital*

The Company may by ordinary resolution increase, consolidate or sub-divide its share capital or cancel any shares which have not, at the date of the ordinary resolution, been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of shares so cancelled. The Company may (subject to the Act) by special resolution reduce its share capital or any capital redemption reserve or share premium account in any manner.

4.2.8 *Purchase of own shares*

The Company may, subject to the Act and the rights of the holders of any class of shares, purchase its own fully-paid shares.

4.2.9 *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities. The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to ensure (or, as regards subsidiary undertakings, to ensure so far as they can so ensure) that the aggregate amount for the time being remaining outstanding of all moneys borrowed by the Company and all of its subsidiary undertakings ("the Group") and owing to persons outside the Group shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to three times the aggregate of the nominal amount paid up on the share capital of the Company and the total reserves of the Group. Borrowing powers may be relaxed or suspended temporarily by ordinary resolution.

4.2.10 *Directors*

- (i) Each of the directors may be paid a fee at such rate as may from time to time be determined by the Board, provided that such fees in aggregate shall not exceed £100,000 per annum or such higher amount as may be determined by the Company by ordinary resolution. The directors shall also be entitled to be paid all travelling, hotel and other expenses properly and reasonably incurred by them in connection with the business of the Company or in discharge of their duties as directors. If, in the opinion of the Directors, any director performs any special services on behalf of the Company or its business such director may be paid such additional remuneration therefor as the Directors may from time to time determine.
- (ii) At each annual general meeting of the Company one-third (or the nearest number to one-third) of the directors who are subject to retirement by rotation for the time being shall retire from office and shall be eligible for re-election. The directors to retire in each year shall be those subject to retirement by rotation who have been longest in office since they were last appointed or reappointed, but as between persons who became directors at the same time, those to retire shall (unless they otherwise agree amongst themselves) be determined by lot.

- (iii) Subject to the Act and the provisions of the Articles of Association, no director shall be disqualified by his office from contracting with the Company either with regard to his tenure of any office or as vendor, purchaser or otherwise, nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company in which any director is in any way interested be liable to be avoided, nor shall any director so contracting or being so interested be liable to account to the Company or the members for any profit, remuneration or other benefit realised by any such contract or arrangement, by reason only of such director holding that office or of the fiduciary relationship thereby established.
- (iv) A director shall not vote or be counted in any quorum in respect of any contract or arrangement or any other proposal in which (together with any interest of any person connected with him) to his knowledge he has a material interest, save that this prohibition shall not apply to:
- (1) the giving of any security, guarantee or indemnity in respect of money lent or obligation undertaken by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
 - (2) the giving by the Company or any of its subsidiary undertakings of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he has himself assumed the responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (3) any proposal concerning any offer of shares or in debentures or other securities of the Company or any of its subsidiary undertakings issued or to be issued pursuant to any offer or invitation to holders of securities of the Company or any of its subsidiary undertakings in which offer he is interested as a participant in the underwriting or sub-underwriting of any such securities whether or not issued or to be issued as aforesaid;
 - (4) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
 - (5) any contract or arrangement concerning any other company (not being a company in which the director is beneficially interested in 10 per cent. or more of the issued shares of any class or the voting rights (as defined in the Articles of Association)) in which he is interested, directly or indirectly and whether as an officer, creditor or shareholder or otherwise;
 - (6) any arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings, which does not provide in respect of any director as such any privilege or advantage not generally awarded to the employees to which such arrangement relates; and
 - (7) any proposal concerning any insurance which the Company is empowered to purchase and/or maintain for the benefit of and against any liability incurred by any directors of the Company or persons who include directors.
- (v) A director shall not vote or be counted in the quorum on any Board resolution concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested, including fixing or varying the terms of his appointment or the termination thereof. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) or the termination of the appointment of two or more directors to offices or places of profit with the Company or any other company in which the Company is interested, a separate resolution may be put in relation to each director and in such a case each of the directors concerned shall be entitled to vote (and be

counted in the quorum) in respect of each resolution except that concerning his own appointment or the termination of his own appointment or in the case of an office or place of profit with any such other company as aforesaid where the other company is a company in which the director owns 10 per cent. or more.

- (vi) No person shall be disqualified from being appointed a director by reason of his having attained the age of 70 or any other age and no director shall be required to vacate his office at any time by reason of the fact that he has attained the age of 70 or any other age.
- (vii) The Directors may exercise all the powers of the Company to grant pensions, annuities or other allowances and benefits in favour of any person including any director or former director or the relations or dependants of any such person provided that no pension, annuity or other allowance or benefit (except as otherwise provided by the Articles of Association) shall be granted to a director or former director who has not been an executive director or held any other office or place of profit under the Company or any of its subsidiaries or to a person who has no claim on the Company except as a relation or dependant of such a director or former director without the approval of an ordinary resolution of the Company. A director or former director shall not be accountable to the Company or its shareholders for any benefit of any kind conferred under or pursuant to this provision and the receipt of any such benefit shall not disqualify any person from being or becoming a director of the Company.
- (viii) The Directors may appoint anyone or more of their body to the position of managing director or to hold other executive office for such period (subject to the Act) and on such terms as the Directors shall think fit.
- (ix) A director may hold and be remunerated in respect of any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office as director and he (or his firm) may act in a professional capacity for the Company (except as auditor) and may be remunerated for it.

4.2.11 *Indemnity of officers*

Subject to the provisions of, and so far as may be consistent with, the Act, every director, alternate director, manager, officer and the auditors will be indemnified out of the funds of the Company against all costs, charges, losses, expenses and liabilities incurred by him (or them) in the execution and discharge of his (or their) duties, including any liability incurred by him in defending any proceedings (whether civil or criminal) which relate to anything done or omitted or alleged to have been done or omitted by him (or them) in that capacity.

4.2.12 *Untraced shareholders*

Subject to various notice requirements, the Company may sell any shares of a member if, during a period of twelve years, at least three dividend payments on those shares have become payable and the cheques or warrants have remained uncashed and the Company has received no indication of the existence of such member during such period.

4.2.13 *Dividends*

- (i) Out of the profits of the Company available for distribution, the Company may in general meeting declare dividends, but no dividend shall be in excess of the amount recommended by the Board.
- (ii) Except so far as the rights attaching to the shares provide otherwise, all dividends shall be apportioned and paid proportionately to the amounts paid up on the shares (provided that calls have been made for all such payments) during any portion or portions of the period in respect of which the dividend is paid.
- (iii) The Company may withhold payment of any dividend or other money which would otherwise be payable (or any shares otherwise distributable in lieu of payment) on any shares which represent 0.25 per cent. or more of the class of shares concerned if the holder of such shares has been served with a restriction notice after a failure to provide the Company with information required by a statutory notice.

- (iv) Any dividend which remains unclaimed for a period of twelve years after being declared or becoming due for payment shall be forfeited and shall revert to the Company. No dividend shall bear interest against the Company.

4.2.14 *Non-United Kingdom shareholders*

Members with addresses outside the United Kingdom are not entitled to receive notices from the Company unless they have given the Company an address within the United Kingdom at which such notices may be served.

5. **Directors' interests in the issued share capital and other interests**

- 5.1 In addition to their interests by virtue of the grant of options under the Share Option Schemes described in paragraph 3.4 of this Part 10, as at 27 September 2000 (being the latest practicable date prior to the publication of this document), the interests of the directors, their immediate families and (so far as it known to the directors or could with reasonable diligence be ascertained by the directors) persons connected (within the meaning of section 346 of the Act) with the directors in the issued share capital of the Company (all of which are beneficial unless otherwise stated), including (i) those notified by each director to the Company pursuant to section 324 or section 328 of the Act, (ii) those required to be entered in the register maintained under section 325 of the Act and (iii) those of connected persons of the directors which would, if the connected persons were directors, be required to be disclosed under (i) or (ii) above, were, and at 24 October 2000 (assuming no dealings by the directors, their immediate families and any persons connected with them during the period up to such date) the interests of such persons will be, as follows:

<i>Director</i>	<i>At the date of this document</i>		<i>On Admission</i>	
	<i>Ordinary Shares</i>	<i>Percentage of issued Ordinary Shares</i>	<i>Ordinary Shares</i>	<i>Percentage of issued Ordinary Shares</i>
Terence Plummer	5,694,029	26.08	5,594,027	23.06
Wayne Lochner	5,694,029	26.08	5,594,027	23.06
Robert Ferguson Southward	406,364	1.86	366,364	1.51
Allan Redfern	204,432	0.94	187,532	0.77
Stuart Paul Barker	102,202	0.47	83,338	0.34
Peter Howard-Dobson	13,300	0.06	13,300	0.05
June Carol May	Nil	Nil	Nil	Nil

Note: The interests of the Directors as they are expected to be on Admission exclude the intended gifts described in paragraph 5.2 below.

- 5.2 Certain of the directors intend to make disposals of certain of their holdings in the amounts set out in the table below. The gifts are intended to be made on 20 October 2000.

<i>Director</i>	<i>Number of Ordinary Shares to be gifted</i>
Terence Plummer	100,002
Wayne Lochner	100,002
Robert Ferguson Southward	40,000
Allan Redfern	16,900
Stuart Paul Barker	18,864

- 5.3 In addition to the holdings disclosed above, T Plummer and W Lochner have a beneficial interest in a total of 714,294 Ordinary Shares held by Plumloch Investments (UK) Limited, a company controlled by T Plummer and W Lochner, representing a 2.94 per cent. interest in the enlarged issued share capital of the Company on Admission.
- 5.4 Details of the options granted to directors are set out in paragraph 3.4.1 of this Part 10 above.
- 5.5 Save as set out in paragraphs 3.4.1, 5.1, 5.2 and 5.3 of this Part 10, none of the directors (or any person connected with them within the meaning of section 346 of the Act) has any interest in the share capital of any company in the Group.

- 5.6 Each of the following executive directors has a service agreement with the Company which, in the case of T Plummer and W Lochner, has an initial fixed term of 24 months from the date of the commencement of the relevant individuals' employment and thereafter is only capable of termination by either party giving not less than 12 months' written notice to the other. In the case of the other directors, their contracts have an initial fixed term of 18 months from the commencement of the agreement and thereafter are only capable of termination by either party giving not less than six months' written notice to the other. Each agreement provides for the director concerned to retire at the age of 65. With the prior consent of the director concerned, the other party may assign each agreement to another company within the Group. Details of the service agreements (including salary) are set out below:

<i>Director</i>	<i>Date of Agreement</i>	<i>Date of commencement of employment</i>	<i>Present annual salary</i>
Terence Plummer	9 April 1999	20 April 1999	£150,000
Wayne Lochner	9 April 1999	20 April 1999	£150,000
Robert Ferguson Southward	9 April 1999	20 April 1999	£120,000
Allan Redfern	9 April 1999	20 April 1999	£100,000
Stuart Paul Barker	9 April 1999	20 April 1999	£ 90,000

- 5.6.1 T Plummer is also entitled to the benefit of a company car, the acquisition costs of which shall not exceed £40,000, and a monthly pension contribution made by the Company in the amount of 5 per cent. of salary, the amount of which shall be agreed annually in advance with the Board. His salary is subject to annual review by the Company without any obligation on the Company's part to increase the same. He is entitled to an annual bonus the amount and terms of which shall be agreed annually by the Remuneration Committee of the Company in the current year which cannot exceed 40 per cent. of salary. A discretionary bonus of £50,000 was paid to him in relation to the period 20 April 1999 to 20 April 2000 in May 2000. With effect from 1 May 2000 his salary was increased from £75,000 (net of tax) to £150,000 following consultation with the Remuneration Committee.
- 5.6.2 W Lochner is also entitled to the benefit of a company car, the acquisition costs of which shall not exceed £40,000, and a monthly pension contribution made by the Company in the amount of 5 per cent. of salary, the amount of which shall be agreed annually in advance with the Board. His salary is subject to annual review by the Company without any obligation on the Company's part to increase the same. He is entitled to an annual bonus the amount and terms of which shall be agreed annually by the Remuneration Committee in the current year which cannot exceed 40 per cent. of salary. A discretionary bonus of £50,000 was paid to him in relation to the period 20 April 1999 to 20 April 2000 in May 2000. With effect from 1 May 2000 his salary was increased from £75,000 (net of tax) to £150,000 following consultation with the Remuneration Committee.
- 5.6.3 R Southward is also entitled to the benefit of a company car, the acquisition costs of which shall not exceed £30,000, and a monthly pension contribution made by the Company in the amount of 5 per cent. of salary, the amount of which shall be agreed annually in advance with the Board. His salary is subject to annual review by the Company without any obligation on the Company's part to increase the same. He is entitled to an annual bonus the amount and terms of which shall be agreed annually by the Remuneration Committee in the current year which cannot exceed 40 per cent. of salary. A discretionary bonus of £25,000 was paid to him in relation to the period 20 April 1999 to 20 April 2000 in May 2000. With effect from 1 May 2000 his salary was increased from £60,000 to £120,000 following consultation with the Remuneration Committee.
- 5.6.4 A Redfern is also entitled to the benefit of a company car, the acquisition costs of which shall not exceed £30,000, and a monthly pension contribution made by the Company in the amount of 5 per cent. of salary, the amount of which shall be agreed annually in advance with the Board. His salary is subject to annual review by the Company without any obligation

on the Company's part to increase the same. He is entitled to an annual bonus the amount and terms of which shall be agreed annually by the Remuneration Committee in the current year which cannot exceed 40 per cent. of salary. A discretionary bonus of £25,000 was paid to him in relation to the period 20 April 1999 to 20 April 2000 in May 2000. With effect from 1 May 2000 his salary was increased from £60,000 to £100,000 following consultation with the Remuneration Committee.

- 5.6.5 S Barker is also entitled to the benefit of a company car, the acquisition costs of which shall not exceed £30,000, and a monthly pension contribution made by the Company in the amount of 5 per cent. of salary, the amount of which shall be agreed annually in advance with the Board. His salary is subject to annual review by the Company without any obligation on the Company's part to increase the same. He is entitled to an annual bonus the amount and terms of which shall be agreed annually by the Remuneration Committee in the current year which cannot exceed 40 per cent. of salary. A discretionary bonus of £20,000 was paid to him in relation to the period 20 April 1999 to 20 April 2000 in May 2000. With effect from 1 May 2000 his salary was increased from £45,000 to £90,000 following consultation with the Remuneration Committee.
- 5.7 The non-executive directors of the Company are each appointed pursuant to a letter of appointment which requires them to spend not less than 15 days a year on the business of the Group. They are entitled to a fee of £15,000 per annum and an additional fee of £1,000 per day for each additional day spent in relation to the business of the Group and they are entitled to travel and out-of-pocket expenses incurred on behalf of the Group.
- 5.8 Save as stated in paragraph 5.6 above, there are no service agreements existing or proposed between any director and the Company or any member of the Group.
- 5.9 There are no arrangements under which any director has waived or agreed to waive any past or future emoluments.
- 5.10 The aggregate remuneration paid and benefits in kind granted to the directors of the Company by any member of the Group for the period ended 31 December 1999 was £444,524. It is estimated that the aggregate remuneration to be paid including benefits in kind to be granted to the directors by any member of the Group in the current financial year, under arrangements currently in force, will not exceed £875,000. The total emoluments received by the directors will not be varied as a result of the Placing and Open Offer.
- 5.11 No director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group taken as a whole and which has been effected in the current or immediately preceding financial period or was effected during any earlier financial period and remains in any respect outstanding or unperformed.
- 5.12 No director has any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, any member of the Group or which are proposed to be so acquired, disposed of or leased.
- 5.13 Save as disclosed in paragraphs 5.14, 5.15, and 5.16, no director has or has had any direct or indirect interest in any contract or arrangement subsisting at the date of this document which is significant to the business of the Group.
- 5.14 A Redfern, as a director of Dezincom Technology Limited, was interested in an arrangement between that company and VIP pursuant to which commissions were payable to the company by VIP.
- 5.15 Following the Company's admission to AIM in April 1999 the Group repaid indebtedness of £50,000 to Bannacount Exports Limited, a subsidiary of Plumloch Investments (UK) Limited, which in turn is a company controlled by T Plummer and W Lochner.

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

The Group is charged quarterly by Bannaccount Exports Limited for the hire of a photocopier, at the rate of £342 per quarter. The outstanding balance as at 31 March 2000 was £NIL (31 December 1999: £NIL).

During 1999, Group acquired a car from Bannaccount Exports Limited, a subsidiary company of Plumloch Investments (UK) Limited, which is also controlled by Terry Plummer and Wayne Lochner and holds 3.3 per cent. of the issued share capital of the Company. 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 at the end of the year ended 31 December 1999. The £3,944 balance was outstanding as at 31 March 2000 and was subsequently paid on 22 September 2000.

In 1998, the Group received a loan from Bannaccount Exports Limited for £50,000 which was repaid in 1999.

As at 31 December 1999 the Group owed £948 to Plumloch Investments (UK) Limited in connection with minor expenses incurred on the Group's behalf. The £948 balance was outstanding as at 31 March 2000 and was subsequently paid on 22 September 2000.

The Group incurred charges of £450 for the three month period ended 31 March 2000 (£9,105 for the year to 31 December 1999) for accountancy services to Masons, Chartered Accountants. The 1999 expenditure was primarily in connection with the services of Stuart Barker prior to his appointment to the Board, but additionally for continuing payroll services. The brother of Stuart Barker is a partner in the firm. As at 31 March 2000 the group owed Masons, Chartered Accountants £212 (31 December 1999: £106).

The Group entered into transactions with TCS, a 50 per cent. equity investment, for the provision of payroll, pension and motor costs which amounted to £101,965 for the three month period ended 31 March 2000 (year ended 31 December 1999: £76,828). The Group also provided premises for TCS which resulted in a charge of £1,643 for the three month period ended 31 March 2000 (year ended 31 December 1999: £9,521). The Group also paid £523,058 of expenses on TCS's behalf, with no impact on the profit and loss account during the year ended 31 December 1999. Included within this expenditure was £237,500 paid to Unisys in connection with the Geneva billing platform. As at 31 March 2000 TCS owed the Group £77,080 (31 December 1999: £555,926).

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.

- 5.17 There are no outstanding loans granted by any member of the Group to any of the directors, nor has any guarantee been provided by any member of the Group for the benefit of any of the directors.
- 5.18 In addition to their directorships of members of the Group, the directors have held the following directorships or been partners in the following businesses at some time during the five years preceding the date of this document:

<i>Name</i>	<i>Current directorships</i>	<i>Past directorships</i>
Terence Plummer	Plumloch Investments (UK) Limited Wispa (UK) Limited Bannaccount Exports Limited Original Creations Limited Wayne Lochner Associates Limited HotSPACE (UK) Limited E.Recruitment.com LTD	Plumloch Investments Limited Plumloch Communications Limited

<i>Name</i>	<i>Current directorships</i>	<i>Past directorships</i>
Wayne Lochner	Plumloch Investments (UK) Limited Wispa (UK) Limited Bannaccount Exports Limited Original Creations Limited Wayne Lochner Associates Limited Hotspace (UK) Limited E.Recruitment.com LTD 79 VSQ Limited 80 VSQ Limited Synigence Affinity Limited TransAffinity Inc. TeleCentric Solutions Limited	Plumloch Investments Limited Plumloch Communications Limited
Robert Ferguson Southward	None	None
Allan Redfern	TransAffinity Inc. Synigence Affinity Limited 80 VSQ Limited 79 VSQ Limited	Re-Engineering Maintenance Conversions Limited Excalibur Software Products Limited Dezigncom Technology Limited
Stuart Paul Barker	Oakhurst Accounting Services Limited	None
Peter Howard-Dobson	Quintessential Consulting Limited Commstec Limited	Mercury Personal Communications Limited Mercury One 2 One Limited One 2 One Limited One 2 One Finance Limited
June Carol May	Ramesys e-Business Services Limited Ramesys Holdings Limited	None

5.19 A Redfern was a director of 4GL Systems Limited, which went into receivership in 1990. The company's liquidation was insolvent and the deficiency to creditors was not more than £2.5 million. T Plummer and W Lochner were directors of Plumloch Investments Limited and Plumloch Communications Limited, which were the subject of a members' voluntary winding-up on 4 February 1997 and 27 October 1998 respectively. Plumloch Investments Limited and Plumloch Communications Limited were solvent when wound up.

5.20 Save as disclosed in paragraph 5.19, none of the directors has:

- (i) any unspent convictions in relation to indictable offences;
- (ii) ever been declared bankrupt or been the subject of an individual voluntary arrangement;
- (iii) ever been a director of a company which while he was a director or within 12 months after his ceasing to be a director had a receiver appointed, entered into liquidation, entered into administration, entered into a voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors;
- (iv) ever been a partner in a partnership which while he was a partner or within 12 months after his ceasing to be a partner entered into compulsory liquidation, administration or a partnership voluntary arrangement;
- (v) owned, or been a partner in a partnership which owned, any asset which, while he owned that asset, or while he was a partner or within 12 months after his ceasing to be a partner in the partnership which owned that asset, entered into receivership;

- (vi) been the subject of any public criticism by any statutory or regulatory authority (including recognised professional bodies); or
 - (vii) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- 5.21 In so far as is known to the Company, as at 27 September 2000 (being the latest practicable date prior to the publication of this document) there were no persons other than subsidiaries of CGNU Group PLC (which, between them, own interests in 753,852 Ordinary Shares, amounting to 3.4 per cent. of the Company's issued share capital) and directors with interests, directly or indirectly, amounting to 3 per cent. or more of the issued capital of the Company.
- 5.22 W Lochner and T Plummer between them are interested in 55.44 per cent. of the issued share capital of the Company and will, following Admission, be interested in 49.07 per cent. of the enlarged issued share capital of the Company. Accordingly, W Lochner and T Plummer between them could or may exercise control of the Company. Save as disclosed in paragraph 5.21 and this paragraph 5.22 of this Part 10, the Company is not aware of any person who is interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company. Save as disclosed in this paragraph 5.22, the Company is not aware of any other person who, directly or indirectly, jointly or severally, could exercise control over the Company.

The Board is satisfied that the Company is capable of carrying on business independently of the control of Mr Lochner and Mr Plummer by virtue of the service agreements between all directors and the Company, the composition of the Board and existing corporate governance procedures. All transactions and relationships between the Company and Mr Lochner and Mr Plummer are, and will be, at arm's length and on a normal commercial basis.

6. Taxation

The following is only a general guide, based on current legislation and practice in the United Kingdom, on the tax consequences of ownership of New Ordinary Shares for Qualifying Shareholders who are resident in the UK for tax purposes. (The position of certain Shareholders who are not so resident is briefly considered at paragraph 6.2.2 below.) The information below may not apply to certain classes of persons, including in particular dealers in securities and financial institutions. Any person who is in any doubt as to his tax position should consult an appropriate independent professional adviser.

6.1 *Taxation of capital gains for UK Qualifying Shareholders*

An individual or corporate Qualifying Shareholder resident for tax purposes in the UK (and, in certain circumstances, such a Shareholder if not so resident) who sells or otherwise disposes of his Ordinary Shares may, depending on the Shareholder's circumstances, incur a liability to UK tax on any capital gain, or deemed capital gain, realised. Current UK law treats the allotment of shares to all the existing shareholders in proportion to existing shareholdings as a reorganisation of share capital. Inland Revenue practice is to treat any subscription for shares under an open offer, which is equal to or less than a shareholder's entitlement based on the shareholder's existing shareholdings, as a reorganisation of share capital. Accordingly, to the extent that a Qualifying Shareholder subscribes under the Open Offer for New Ordinary Shares up to his entitlement based on his existing shareholding, the New Ordinary Shares so allotted would then, for the purposes of UK tax on capital gains, be treated as having been acquired at the same time as the Qualifying Shareholder's existing holding of Ordinary Shares was acquired. The amount of subscription monies paid for the New Ordinary Shares will be added to the allowable expenditure for the Qualifying Shareholders' existing holding of Ordinary Shares. In the case of a non-corporate Qualifying Shareholder, indexation allowance will not be given for any period after April 1998. Accordingly, on such a Shareholder's original holding of Ordinary Shares indexation allowance will not be given in respect of amounts paid for the New Ordinary Shares. For such a Shareholder, indexation allowance will be replaced by a taper relief which will reduce the amount of capital gain realised on a subsequent disposal of his shareholding, according to how long the New Ordinary Shares have been held. In the case of a corporate Qualifying Shareholder, indexation allowance will apply to the amount paid for the New Ordinary Shares only from the date the monies for the New Ordinary Shares are paid or liable to be paid.

Any allotment of Offer Shares to a Qualifying Shareholder in excess of their base entitlement will be treated as an acquisition of New Ordinary Shares at that date like any other purchase and not as a reorganisation.

Shareholders should note that special identification rules apply to match disposals with acquisitions and these rules operate irrespective of the specific shares actually disposed of.

6.2 *Dividends*

Under current United Kingdom taxation legislation, no withholding tax applies on dividends paid by the Company.

6.2.1 *UK resident Shareholders*

Where the Company pays a dividend, a Shareholder who is an individual resident in the UK (for the purposes of UK tax) and who receives that dividend shall generally be entitled to a tax credit in respect of a dividend received. The tax credit currently equals 10 per cent. of the combined amount of the dividend and the tax credit (the "gross dividend"). Such individuals will be liable to income tax on the gross dividend which will be regarded as the top slice of the individual's income for tax purposes and will be subject to UK income tax at the special rates of tax as described below.

Individual shareholders who are liable to income tax at lower or basic rate will be liable to tax on the gross dividend received at the rate of 10 per cent. This means that the tax credit will satisfy an individual's liability to pay income tax at the lower or basic rate.

The rate of income tax applied to gross dividends received by individual Shareholders liable to income tax at the higher rate will be equal to what is known as the Schedule F upper rate (currently 32.5 per cent.). After taking into account the 10 per cent. tax credit a higher rate taxpayer will be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend.

Individual shareholders who are not liable to income tax on the dividend income generally cannot claim repayment of the tax credit from the Inland Revenue.

A UK resident corporate Shareholder will not normally be liable to UK corporation tax on any dividend received from the Company. Most UK resident corporate and pension fund Shareholders are not, however, entitled to repayment of tax credits from the Inland Revenue.

6.2.2 *Non UK resident Shareholders*

Shareholders resident outside the UK for tax purposes will not generally be entitled to the benefit of any tax credit on dividends received from the Company. Shareholders who are not resident in the UK for tax purposes but who are either Commonwealth citizens or nationals of the European Economic Area and certain other classes of people are normally entitled to a tax credit in respect of a dividend received from the Company which they may offset against their total UK income tax liability or reclaim to the same extent as if they were resident in the UK. Non UK resident Shareholders who do not fall within the above categories may be able to claim a repayment from the Inland Revenue in respect of part of the tax credit attaching to the dividends to which they are entitled, depending on the provisions of any relevant double taxation convention or agreement. Shareholders resident in jurisdictions outside the UK should consult their own tax advisers as to entitlement and procedures as well as taxation in their own jurisdiction. The decrease in the rate of the tax credit from 6 April 1999 (as described above) will generally reduce or eliminate the amount in respect of the tax credit that may be paid under the terms of a double taxation agreement from that date.

6.3 *Stamp Duty and Stamp Duty Reserve Tax*

6.3.1 No liability to stamp duty or stamp duty reserve tax ("SDRT") will arise on the allotment of New Ordinary Shares by the Company pursuant to the Placing and Open Offer.

- 6.3.2 The registration of and the issue of definitive share certificates to Qualifying Shareholders or the registration of New Ordinary Shares in the name of a member of CREST will not give rise to any further liability to stamp duty or SDRT.
- 6.3.3 The conveyance or transfer on the sale of Ordinary Shares which are held in certificated form following registration will be subject to stamp duty on the instrument of transfer, at the rate of 0.5 per cent. (rounded up to nearest multiple of £5) of the amount of the value of the consideration. Where Ordinary Shares are held in uncertificated form within CREST, a liability to SDRT will arise where a change in the legal and/or beneficial ownership of those Ordinary Shares occurs.

Certain categories of persons may be required to account for stamp duty and SDRT at higher rates than those referred to above.

If you are in any doubt as to your tax position, you should consult an appropriate independent professional adviser without delay.

7. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have either been entered into by members of the Group during the two years preceding the date of this document and are, or may be, material or contain provisions under which any member of the Group has a material obligation or entitlement:

- 7.1 An agreement dated 4 February 1998 (subsequently varied on 19 May 1999, 4 November 1999 and 21 December 1999) between (1) VIP and (2) ICL for the provision by ICL of Internet services, to enable VIP to provide branded Internet services to its clients and end-users. Any agreement between VIP and end-users is subject to the terms and conditions notified to VIP by ICL. Monthly payments are made to ICL based on the number of end-users which contract with VIP. The purposes of the variations to the agreement have been to extend the territories in which ICL is to supply its services, to extend the term of the agreement and to alter the charging tariff, based on increasing numbers of end-users. The agreement (as varied) provides that VIP shall pay ICL a monthly sum per 60 day active account calculated on a sliding scale according to the number of 60 day active accounts; as the number of 60 day active accounts increases, the monthly charge per account decreases. VIP pays a reduced rate in respect of inactive registered accounts. The agreement (as varied) further provides for the implementation of services by ICL in both the UK and Holland. *The agreement contains warranties and indemnities given by VIP to ICL, principally with regard to warranties and indemnities which VIP must seek from the end-users when it contracts with them in order to hold ICL harmless against claims brought as a result of clients' or end-users' wrongful use of Internet access. In particular VIP warrants that neither it nor any end-user will use the relevant Internet services for any unlawful purpose. No intellectual property rights owned by ICL are to vest in VIP, although both VIP and ICL offer indemnities to each other in the event of claims brought by third parties in respect of infringement of their intellectual property rights by either VIP or ICL. ICL grants VIP a non-exclusive, non-transferable world-wide right to use ICL's information, documentation, and other data, including software ("End User Materials"), and to copy and supply those End User Materials to VIP's end-users. Without the grant of this right, VIP would not be able to supply Internet access to its end-users, since the ICL End User Materials are an integral part of the software which VIP supplies. The agreement will terminate on 1 January 2002, although the agreement may be varied to extend the term. There is no provision for either party to terminate the agreement on notice. VIP's maximum liability for breach of the agreement (apart from the indemnity granted by VIP in respect of intellectual property rights which is not limited) would be 50 per cent. of the total charges which would have been payable by it under the agreement but for termination owing to the breach.*
- 7.2 An agreement dated 1 April 1999 between (1) VIP and (2) Singers giving Singers a warrant to subscribe for "B" ordinary shares of 10 pence each in VIP representing between 1 and 4 per cent. of the enlarged issued share capital of VIP. The number of ordinary shares which Singers was entitled to subscribe for depended on the level of borrowings drawn down under a facility agreement.

Singers was granted a warrant in relation to 1 per cent. of the ordinary shares and was given the right to subscribe for 2 per cent., 3 per cent. or 4 per cent. of the enlarged issued share capital of VIP, if borrowings under the facility agreement were £249,999, between £250,000 and £499,999 or between £500,000 and £750,000 respectively. The warrants conferred by the agreement have all been exercised.

- 7.3 A share for share exchange agreement dated 9 April 1999 and made as a deed between (1) the shareholders of VIP for the time being ("the Vendors") and (2) the Company pursuant to which the Company agreed to acquire from the Vendors the entire issued share capital of VIP in consideration of the issue and allotment to the Vendors of an aggregate of 13,786,000 Ordinary Shares, credited as fully paid, and of the Company agreeing to treat 500,000 Ordinary Shares, already in issue, paid up as to one quarter of their nominal value and held by T Plummer and W Lochner, as paid up in full.
- 7.4 A placing agreement dated 26 November 1999 between (1) the Company and (2) Charles Stanley pursuant to which Charles Stanley agreed to use its reasonable endeavours to procure conditional placees to subscribe for 1,785,188 Ordinary Shares at £11.50 per share. In consideration for these services the Company agreed to pay Charles Stanley a fee of £150,000 plus commissions totalling £615,889.86, plus VAT, as applicable. The placing agreement contained warranties and indemnities given by the Company in favour of Charles Stanley. The warranties were expressed to remain in force notwithstanding completion of the placing. Charles Stanley must give written notice to the Company as soon as reasonably practicable after it becomes aware of any action or claim or other matter in respect of which an indemnity may be sought. There is no given time period within which an action or claim must be brought and there are no value limitations for any such claim or action.
- 7.5 An agreement dated 21 October 1999 between (1) the Company (2) EGO Maniacs and (3) ICL for the acquisition by EGO Maniacs of the ICL business trading as Gameszone for a contingent consideration of up to £250,000 depending on profits earned during the two year period to 31 March 2001. The obligations of EGO Maniacs under the agreement are unconditionally guaranteed by the Company. The Company's guarantee is a continuing one and remains in force until all of the obligations of EGO Maniacs under this agreement (and another related agreement (the "Internet Service Agreement", as defined in the agreement)) have been performed or satisfied. The Company's guarantee is given in addition to any rights ICL has or may gain under the agreement or the Internet Service Agreement. The Company's guarantee will not be discharged by time or any other concession that ICL may give to EGO Maniacs (excepting if the Company should release EGO Maniacs from its liability under the agreement). The agreement contains warranties with regard to title, and contracts given by ICL in favour of EGO Maniacs. ICL purports not to be liable under the warranties or in respect of any claim unless a notice is served setting out full particulars of all claims within 3 months and unless the aggregate amount of all claims under the agreement exceed £50,000 to the extent that the aggregate liability of ICL for all claims made shall not exceed the consideration paid to ICL. ICL is not liable for any claim under the warranties if such liability is a contingent one unless and until such contingent liability becomes an actual liability which is due or payable. Any payment by ICL in respect of a claim made under the agreement will be treated by ICL and EGO Maniacs as a reduction in the consideration payable to EGO Maniacs to the extent of the payment. There are no other limitations on claims brought under the warranties.
- 7.6 An agreement dated 23 December 1999 between (1) the Company and (2) various parties pursuant to which the Company agreed to purchase from the various parties the entire issued share capital of TAXI (the holding company of myTAXI Limited) for an initial consideration of 353,741 Ordinary Shares. Ordinary Shares with a value of £5,969,956 are to be issued at the higher of £17 and the market value per share if certain performance targets are met. The agreement contains restrictions on the disposal of Ordinary Shares issued as consideration. Completion of the purchase of the shares was conditional on and took place immediately following admission of the 353,741 Ordinary Shares to trading on AIM. The agreement contains warranties and indemnities in favour of the Company. There are financial limits in respect of claims under the warranties in that (i) no liability attaches to the warrantors unless the liability exceeds £25,000; (ii) the aggregate amount of the

liability of the warrantors must not exceed £6,000,000 or, if less, the net market value of the 5,969,956 Ordinary Shares on the date on which such shares are issued; and (iii) settlement of all amounts due shall be settled by an adjustment of the 5,969,956 Ordinary Shares as detailed in the agreement and the Company has no other rights to damages in cash or otherwise under the agreement. In relation to claims under the warranties, the various vendors must receive from the Company written notice (including the Company's estimate of the amount of the claim) on or before 12 months after completion or if earlier the date of issue of the 5,969,956 Ordinary Shares. Other than the latter, there are no other limitations on the time within which a claim must be brought under the warranties.

- 7.7 A systems integration agreement dated 15 December 1999 between (1) Unisys and (2) TCS for the provision by Unisys of a Geneva billing system and various support and maintenance services, to enable TCS to provide convergent billing services to its customers. The total consideration paid by TCS for software, integration, the hardware supplied and 12 months' maintenance services was £2,116,489. The system has been accepted by TCS. Unisys may suspend product support services if any payment is more than 30 days overdue. Unisys does not warrant that the system will meet TCS's requirements if those requirements were expressly included in TCS's specification. Unisys disclaims any implied warranties of merchantability, satisfactory quality or fitness for a particular purpose, as well as all other implied warranties not expressly incorporated into the agreement. Unisys limits its liability for damages arising out of its breach of the agreement to the greater of £500,000 and charges paid to Unisys during the 24 month period immediately prior to TCS giving Unisys notice of any defects in the system or related services which directly relate to any cause of action which arises. Unisys purports to exclude liability for TCS's consequential losses arising as a result of Unisys' breach. Pursuant to the agreement, Unisys grants a perpetual, non-exclusive, royalty free licence to TCS to use the software.
- 7.8 An agreement dated 18 February 2000 between (1) the Company (2) TCS and (3) Powergen pursuant to which the Company agreed to sell to Powergen 50 per cent. of the issued share capital of TCS for a consideration of £5,000,000. The agreement contains warranties and indemnities given by the Company to Powergen. The maximum aggregate liability of the Company to Powergen for any claim relating to a breach of any of the warranties is limited to £5,000,000. All claims must be made to the Company in writing by no later than close of business on the second anniversary of completion or, if later, upon publication of the second full set of annual audited accounts (31 December 2001). The warranties under the agreement cease to apply upon the earlier of (i) TCS selling its entire issued share capital or its business to a third party which is unconnected to the Company or Powergen; (ii) in the event that 25 per cent. or more of the issued share capital of TCS is issued on a relevant stock exchange; or (iii) in the event that the Company or Powergen purchases the other's shareholding in TCS (other than pursuant to deadlock or default provisions in the joint venture agreement detailed below). Powergen also agreed to pay to the Company two further tranches of £2,500,000 each subject to the customer base of Powergen being increased by certain numbers.

The Company and Powergen have agreed to develop jointly the business of TCS and operate and manage TCS on the terms of a joint venture agreement between them dated 25 February 2000. The agreement details the relationship between the parties as shareholders in TCS, such as in relation to the board structure, procedure at shareholders meetings and accounting information.

- 7.9 A joint venture agreement dated 17 April 2000 between (1) the Company and (2) Trans National pursuant to which a joint venture between the Company and Trans National will be established to offer Internet access through virtual Internet services providers, and provide portal content, advertising and information to subscribers of such Internet access through the branded virtual Internet service provider's home page. The joint venture agreement further provides that each partner to the joint venture is to contribute 50 per cent. of the capital to the company pursuant to the terms of a business plan in an initial amount not exceeding £2.5 million each. The joint venture company, TransAffinity, may approve or adopt any plan for the grant or issue of options to buy shares of the company based on the achievements of employees, contractors or otherwise for the benefit of the company or any group entity. Each of the Company and Trans National may sell,

transfer or assign up to 25 per cent. of its shares (and group debt) to any affiliate company (as defined in the agreement) of either the Company or Trans National if (i) the affiliate agrees in writing to be a party to the agreement and (ii) the transferring party (either the Company or Trans National) will remain liable for all its obligations under this agreement as if any sale, transfer or assignment had not occurred. The agreement continues for an initial term of 20 years and if the parties agree in writing before the expiry of the initial term will be automatically renewed for an additional term of 20 years. The agreement will terminate early if the joint venture company goes into liquidation, bankruptcy or dissolution or either the Company or Trans National becomes the owner of all the issued shares in TransAffinity. Trans National and the Company each warrant to the other that the agreement has been duly authorised, executed and delivered by each of them, and that it is legally binding on them. There are no value limitations or limitations in respect of the time within which a claim must be brought under the above warranties. In the event of a default committed by either party the non-defaulting party may purchase all of the shares held by the defaulting party at net book value.

- 7.10 An agreement dated 18 May 2000 between (1) Synigence Affinity Limited, (2) the Company and (3) Synigence relating to the establishment of a joint venture to design and develop an Internet healthcare portal and to exploit the portal. The trade is to be carried on by Synigence Affinity Limited. The agreement runs for an indefinite term. At completion, the Company subscribed in cash for 49 "A" ordinary shares of £1.00 each and purchased 1 "A" ordinary share of £1.00 in Synigence Affinity Limited, being 50 per cent. of the issued share capital, for a consideration of £600,000. £150,000 of the consideration was paid at completion and (subject to Synigence providing certain services set out in the agreement) £50,000 is payable monthly for the nine months from signature of the agreement. The first instalment was made on 26 May 2000. However, (if the board of directors of Synigence Affinity Limited agrees) the balance may be paid in a number of instalments upon completion by Synigence of certain work due to be completed each month (as set out in the agreement) and only if Synigence has submitted an invoice to Synigence Affinity Limited for that work which the board of directors of Synigence Affinity Limited has agreed to pay. At completion, Synigence subscribed in cash for 50 "B" ordinary shares of £1.00 each in the capital of Synigence Affinity Limited for an aggregate consideration of the right for Synigence Affinity Limited to enter into an intellectual property licence and certain services. Synigence must also contribute anything that the board of directors of Synigence Affinity Limited agrees is required to run the trade. In the event of insolvency of either party the other party may acquire all the shares of the insolvent party at a fair price.
- 7.11 A share purchase agreement dated 8 June 2000 between (1) the Company and (2) various vendors pursuant to which the Company agreed to acquire the entire share capital of Mister Mail, an Internet service provider of, among other things, a news letter service, reminder service and specially designed e-mails. The initial consideration was £300,000 paid at completion plus 30,000 Ordinary Shares in Affinity ("the Base Price"). If the number of subscribers of Mister Mail or Mister Mail Belgium B.v.b.A ("the Subsidiary") is greater than 250,000 as of 8 June 2001, the Base Price will be increased by 10,000 additional shares in the Company. Likewise, if the number of subscribers of Mister Mail or the Subsidiary is greater than 500,000 as of 8 June 2002, the Base Price will be increased by 10,000 additional shares in the Company. (For the purposes of this agreement, a subscriber is any person or entity who has at least one active e-mail account registered with either Mister Mail or the Subsidiary for the provision of one or more of the services or future services (as defined).) If the number of subscribers is not altered as previously stated, Daloflo B.V., Indilo B.V. and Mr C H J Lenaerts ("the Named Vendors") are not entitled to increase the Base Price. The Base Price plus any increase to it will be deemed to be the final purchase price. If (i) the Company terminates the monthly funding to Mister Mail without cause and/or (ii) all of the shares in the capital of Mister Mail are sold by the Company to anyone other than a group company of the Company and/or (iii) certain named employment contracts are terminated unilaterally by the Company without cause, then, notwithstanding any other provisions in the agreement, the Named Vendors will be entitled to increase the Base Price. The agreement contains warranties and indemnities given by the vendors in favour of the Company. The maximum liability of each of the Named Vendors to the

Company is equal to that portion of the final purchase price received by the relevant Named Vendor and no claim can be asserted by the Company unless and until the aggregate amount of such claim is in excess of NLG 10,000. Once that minimum amount is exceeded, the Company will be entitled to receive the entire amount of damages suffered. The Company is entitled (at its own option) to decline to allot to the relevant Named Vendors the Company's shares not already issued in lieu of seeking the cash value of any claim under the warranties which is established in the final judgment of a competent court or is agreed by the parties. No claim will be admissible and no liability will arise unless the Named Vendors receive written notice of it (i) by no later than close of business on 8 June 2002 or, if later, upon publication of the second full set of annual audited accounts of Mister Mail following 8 June 2000 or (ii) within the statute of limitations (*verjaringstermijn*) with respect to tax warranties.

- 7.12 An agreement dated 24 July 2000 between (1) the Company and (2) various parties ("the Sellers") pursuant to which the Company agreed to purchase from the Sellers the entire issued share capital of *Sonnet Internet Limited* ("Sonnet"). The final consideration, including the repayment of an inter-company loan and the payment of an agreed bonus to one of the Sellers, amounted to £400,000. Completion of the purchase of the shares took place immediately following exchange on the date of the agreement. The agreement contains warranties and indemnities in favour of the Company. The Sellers will not be liable for a claim for any breach of the warranties unless and except the Company gives the Sellers written particulars of the claim within six years from 24 July 2000 in the case of a claim relating to tax or on or before 31 December 2001 in the case of any other claim. *The total liability of the Sellers under the warranties must not exceed £302,607.41 and the Sellers will not be liable for a claim for a breach under any of the warranties unless the aggregate of the amounts payable under that and every other such claim exceeds £10,000.* If the Company or Sonnet notifies the Sellers of a claim and proceedings in respect of such claim have not been issued and served not later than the expiry of six months after the date of the written notice, then notice will be deemed to have been irrevocably withdrawn and lapsed. There are no other limitations on claims brought under the warranties. The Sellers will keep the Company fully indemnified solely and specifically against all or any loss which Sonnet and/or the Company may suffer (directly or indirectly) arising out of any legal action, proceedings or claim made against the Company and/or Sonnet by Kasper De Graaf and/or Biographic Publishing Company Limited.
- 7.13 A letter agreement ("Sponsorship Letter") dated 2 August 2000 from Charles Stanley to the Company confirming the appointment of Charles Stanley to act as the Company's sponsor in relation to the Company's application to the UK Listing Authority for the admission of the whole of the issued and to be issued share capital of the Company to the Official List.
- 7.14 An agreement dated 31 August 2000 between (1) the Company and (2) ICL relating to the provision of managed Internet services. Pursuant to the agreement the Company has agreed to pay annual charges of £205,000 in each of the first, second and third years of the life of the agreement. The Company is also obliged to pay a one-off licence fee of £250,000 to ICL in relation to the grant of an exclusive, world-wide, non-transferable licence to the Company and members of the Group for the use of the logo design appearing on the Buckingham Gate website, solely for the use of on-line shopping services, including the use of the web-site "Buckingham Gate". The agreement runs for an initial term of three years from 1 August 2000 and thereafter may be terminated by either party giving not less than three months' notice or, in case of material breach, the agreement may be terminated immediately. The agreement contains a requirement for the parties to negotiate the charges payable in relation to any extension beyond the minimum term in good faith. Any variations made are to reflect the costs of any enhancements made to the services during the initial term. The agreement limits the aggregate liability of ICL to the Company for financial loss or damage arising out of breach of contract and/or negligence to £1,000,000.
- 7.15 The Placing Agreement, details of which are contained in paragraph 4 of Part 11.

8. Subsidiaries and subsidiary undertakings

The table below sets out details of the Company's subsidiaries and subsidiary undertakings, all of which are owned directly by the Company save where otherwise stated, and other undertakings in which the Company holds at least 10 per cent. of the capital.

<i>Company</i>	<i>Registered office and country of incorporation</i>	<i>Business activity</i>	<i>Percentage of share capital held by the Company</i>	<i>Total issued share capital of the subsidiary</i>
Virtual Internet Provider Limited (3396810)	Victoria House 2nd Floor 64 Paul Street London EC2A 4NA England	Internet services	100 per cent.	1,033,128 ordinary shares divided into: (i) 655,166 "A" ordinary shares of 10 pence each; and (ii) 377,962 "B" ordinary shares of 10 pence each
EGO Maniacs.net Limited (3715427)	Victoria House 2nd Floor 64 Paul Street London EC2A 4NA England	Internet games	100 per cent.	1 ordinary (subscriber) share of £1.00 each
TAXI Interactive Limited (3401080)	Victoria House 2nd Floor 64 Paul Street London EC2A 4NA England	e-commerce	100 per cent.	29,666,249 ordinary shares of 1 pence each
MyTAXI Limited (32157455)	Victoria House 2nd Floor 64 Paul Street London EC2A 4NA England	e-commerce	(100 per cent. owned by TAXI Interactive Limited)	1,000 ordinary shares of £1.00 each
Brightfibre Communications plc (3634021)	Victoria House 2nd Floor 64 Paul Street London EC2A 4NA England	dormant	100 per cent.	100 ordinary shares of £1.00 each
TeleCentric Solutions Limited (3779638)	53 New Broad Street London EC2M 1SL England	tele-communications	50 per cent.	(i) 1,250,001 "A" ordinary shares of £1.00 each; and (ii) 1,250,001 "B" ordinary shares of £1.00 each
TransAffinity Inc.	Corporation Trust Center 1209 Orange Street Wilmington New Castle County Delaware 19801, USA	Internet services	33⅓ per cent.	3 shares of common stock of no par value
80 VSO Limited (3879875)	1 Victoria Square Birmingham West Midlands B1 1BD England	Internet services	50 per cent.	(i) 1 "A" ordinary (subscriber) share of £1.00 each; and (ii) 1 "B" ordinary (subscriber) share of £1.00 each

<i>Company</i>	<i>Registered office and country of incorporation</i>	<i>Business activity</i>	<i>Percentage of share capital held by the Company</i>	<i>Total issued share capital of the subsidiary</i>
Affinity Internet Pty Limited (088 658 164)	Level 4 468 St Kilda Road Melbourne Victoria 3004 Australia	Internet services	25 per cent.	400 ordinary shares of A\$1 each
Virtual Internet Provider Benelux BV i.o.	Martinus Nijhofflaan 2 2624ES Delft The Netherlands	Internet services	100 per cent.	No share capital is in issue. The capital issue is in the course of registration in the Netherlands
Affinity Internet (Pty) Limited (2000/016702/07)	6th Floor Twin Towers East Sandton City 5th Street Sandton 2146 South Africa	dormant	100 per cent.	100 ordinary shares of one Rand each
Synigence Affinity Limited (3950436)	Portland House Aldermaston Park Aldermaston Reading RG7 5HR England	Internet services	50 per cent.	25,000 "A" ordinary shares of £1.00 each and 25,000 "B" ordinary shares of £1.00 each
Sonnet Internet Limited (2990345)	Victoria House 2nd Floor 64 Paul Street London EC2A 4NA England	Internet services	100 per cent.	171,850 ordinary shares of £1.00 each
Mister Mail BV	corporate seat at Maastricht, the Netherlands	Internet services	100 per cent.	400 ordinary shares of 100 NLG each
e Recruitment Solutions Plc (397849)	65 Leonard Street London EC2A 4QS	recruitment services	20 per cent.	941,800 ordinary shares of 10 pence each

9. Working capital

The Company is of the opinion that, taking into account the net proceeds of the Placing and Open Offer receivable by the Company, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this document.

10. Litigation

Save as disclosed below, no member of the Group is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position nor, so far as the Company is aware, are any such proceedings pending or threatened.

VIP has been notified by Sega.com Inc of the purported termination by Sega.com Inc of an agreement signed between VIP and Segasoft Networks Inc. on 29 July 1999 on the alleged grounds of material breach. The purported termination arose out of a dispute between the parties as to the timing of the commencement of services to be provided by VIP to Segasoft Networks Inc. VIP has not received any further notice from Sega.com Inc and the Board believes that VIP would have several defences to any claim for damages which might be brought by Sega.com Inc. The Board intends to defend any litigation which may be brought vigorously and believes that, in the event of litigation, any damages or settlement payable to Sega.com Inc or Segasoft Networks Inc. would not be in an amount which would be material to the Group.

11. General

- 11.1 There has been no significant change in the financial or trading position of the Group since 30 June 2000, being the date to which the last accounts of the Group were made up.
- 11.2 W Lochner and T Plummer are or may be promoters of the Company. Save as disclosed in paragraph 5.15 and 5.16 of this Part 10 of this document, no cash, securities or benefits have been paid, issued or given or are to be paid, issued or given by the Company to W Lochner or T Plummer or any other person in his capacity as a promoter.
- 11.3 There have been no significant recent trends concerning the development of the Group's business nor any significant acquisitions or disposals of assets since 30 June 2000, being the date to which the last accounts of the Group were made up.
- 11.4 The total costs and expenses relating to the Placing and Open Offer payable by the Company are estimated to amount to approximately £3.0 million (excluding VAT) of which £0.675 million relates to commissions payable under the Placing Agreement.
- 11.5 KPMG Audit Plc has given and not withdrawn its written consent to the inclusion in Part 7 of this document of its report and in Part 8 of this document of its letter, the references to such report and letter, and to its name, in such forms and contexts in which they appear. It has also authorised the contents of its report and letter referred to above for the purposes of section 152(i)(e) of the Financial Services Act 1986.
- 11.6 Charles Stanley & Company Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name and in Part 2 of this document of its letter, in the forms and contexts in which they appear. It has also authorised the contents of its letter referred to above for the purposes of section 152(i)(e) of the Financial Services Act 1986.
- 11.7 Masons have given and have not withdrawn their written consent to the issue of this document with the inclusion therein of the references to their name, in the form and context in which they appear.
- 11.8 The New Ordinary Shares being subscribed for and issued pursuant to the Placing and Open Offer are being issued at a premium of £9.90 per share.
- 11.9 The New Ordinary Shares will be in registered form, and, at the option of Shareholders, will be capable of being held in uncertificated form. Temporary documents of title will not be issued. It is expected that definitive share certificates in respect of certificated shares will be posted by first class mail to shareholders, at their risk, on or before 7 November 2000. No temporary documents of title will be issued. In respect of uncertificated shares it is expected that credits to Shareholders' CREST stock accounts will be made on 24 October 2000.
- 11.10 No New Ordinary Shares have been marketed, save for the purpose of the Placing and Open Offer, and the New Ordinary Shares are neither being sold nor are they being made available in whole or in part to the public (with the exception of the Open Offer of New Ordinary Shares to Qualifying Shareholders) in conjunction with the application for Admission, otherwise than by purchase in the market.
- 11.11 There have been no interruptions to the Group's business which may have had or have had in the last 12 months a significant effect on the Group's financial position.
- 11.12 There are no arrangements under which dividends have been waived or agreed to be waived and there are no such arrangements in relation to future dividends.
- 11.13 The auditors of the Company and its subsidiaries for the year ended 31 December 1999 (which is the end of the first accounting reference period of the Company) were KPMG Audit Plc of 8 Salisbury Square, London EC4Y 8BB.

11.14 The financial information contained in Parts 6, 7, 8 and 9 of this document does not constitute statutory accounts for the purposes of section 240 of the Act. Statutory accounts of the Company in respect of the financial year ended 31 December 1999 have been delivered to the Registrar of Companies in England and Wales. The auditors gave an audit report on the statutory accounts of the Company for the financial year ended 31 December 1999 which was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

11.15 The auditors of VIP for the year ended 31 December 1998 were Masons of 20/24 High Street, Rayleigh, Essex SS6 7EF. Statutory accounts of VIP for the year ended 31 December 1998 have been delivered to the Registrar of Companies in England and Wales. The auditors gave an audit report on the statutory accounts of VIP for the financial year ended 31 December 1998 which was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

12. Market quotations

The following table shows the middle market quotations for the Ordinary Shares, as derived from AIM, for the first dealing day in each of the six months before the date of this document and for 27 September 2000, the latest practicable date prior to the date of this document:

27 September 2000	£11.75
1 September 2000	£17.50
1 August 2000	£11.63
3 July 2000	£13.38
1 June 2000	£16
2 May 2000	£17.380
3 April 2000	£27.750

13. Documents available for inspection

Copies of the following documents may be inspected at the offices of Haarmann Hemmelrath, which are at Tower 42, International Financial Centre, 28th Floor, 25 Old Broad Street, London EC2N 1HQ during usual business hours on any weekdays (Saturdays and public holidays excepted) for a period of 28 days following the date of this document:

- (i) the Memorandum and Articles of Association of the Company;
- (ii) the audited accounts of Affinity for the period ended 31 December 1999 and of VIP for the period ended 31 December 1998;
- (iii) the audited accounts of Affinity for the three months ended 31 March 2000;
- (iv) the unaudited interim results of Affinity for the six months ended 30 June 2000;
- (v) the Accountants' report on the Group contained in Part 7 of this document;
- (vi) the letter from KPMG Audit plc set out in Part 8 of this document;
- (vii) the rules of the Share Option Schemes summarised in paragraph 3 of Part 10 of this document;
- (viii) the directors' service agreements and other agreements referred to in paragraphs 5.6 and 5.7 of Part 10 of this document;
- (ix) the material contracts referred to in paragraph 7 of Part 10 of this document;
- (x) the written consents referred to in paragraph 11 of Part 10 of this document; and
- (xi) this document.

28 September 2000

PART 11

PLACING ARRANGEMENTS

1. The Placing

The Company has applied for admission of the whole of its ordinary share capital issued to date, and to be issued in connection with the Placing and Open Offer, to the Official List and to trading on the London Stock Exchange.

2,425,596 New Ordinary Shares have been conditionally placed with certain institutional investors by Charles Stanley pursuant to the Placing subject, in the case of 1,000,195 New Ordinary Shares, to recall to satisfy valid applications by Qualifying Shareholders pursuant to the Open Offer.

The Placing will raise, after expenses, approximately £21.25 million of new capital.

2. Open Offer

The full terms and conditions of the Open Offer are set out in the letter from Charles Stanley to Shareholders in Part 2 of this document. Certain Qualifying Shareholders, being Terence Plummer, Wayne Lochner, Robert Ferguson Southward, Allan Redfern, Stuart Paul Barker and Peter Howard-Dobson, have given irrevocable undertakings not to take up any of their entitlements under the Open Offer in respect of 1,425,401 New Ordinary Shares in aggregate, which have therefore been conditionally placed by Charles Stanley on a firm basis.

3. Sponsorship

On 2 August 2000 the Company and Charles Stanley entered into an agreement pursuant to the Sponsorship Letter for the appointment of Charles Stanley as the Company's sponsor for the purposes of the application for Admission, the making of the Open Offer and the Placing.

4. Placing arrangements

The Company, the directors and Charles Stanley entered into the Placing Agreement on 27 September 2000. Pursuant to the Placing Agreement, *inter alia*:

- (a) subject to the terms and conditions set out in the Placing Agreement, the Company has agreed to allot and issue, and Charles Stanley has agreed to use reasonable endeavours to procure placees for, 2,425,596 New Ordinary Shares;
- (b) the obligations of Charles Stanley under the Placing Agreement are subject to certain conditions, including (i) Admission becoming effective no later than 8.00 am on 24 October 2000 (or such later date as may be agreed by the Company and Charles Stanley), (ii) the representations and warranties on the part of the Company and the directors not being or becoming untrue or inaccurate or misleading, and (iii) there not having occurred or arisen prior to Admission any significant change or new matter as is referred to in section 147(1)(a) or (b) of the Financial Services Act 1986 which would require a supplementary prospectus to be published by the Company;
- (c) the Company will pay to Charles Stanley a fee of £300,000;
- (d) the Company will pay to Charles Stanley commissions equal to 0.5 per cent. of the aggregate Placing Price of the New Ordinary Shares conditionally placed with placees procured by the Company under the Placing and Open Offer and 3 per cent. of the aggregate Placing Price of the New Ordinary Shares conditionally placed with placees procured by Charles Stanley under the Placing and Open Offer. All commissions will be paid together with any value added tax thereon;
- (e) the Company will pay to Charles Stanley, for the benefit of certain institutional and other investors with which New Ordinary Shares (which certain Qualifying Shareholders have irrevocably undertaken not to take up under the Open Offer) have been conditionally placed on a firm basis, and for the benefit of certain institutional and other investors with which New Ordinary Shares have been conditionally placed subject to recall to satisfy valid

applications by Qualifying Shareholders pursuant to the Open Offer, a commission of 0.5 per cent. of the aggregate Placing Price of the New Ordinary Shares conditionally placed with them under the Placing and Open Offer and 0.75 per cent. of the aggregate Placing Price of the New Ordinary Shares which they subscribe under the Placing and Open Offer. All commissions will be paid together with any value added tax thereon;

- (f) the Company will be responsible for any other stamp duty or stamp duty reserve tax arising in respect of the Placing and Open Offer, the accountancy, legal and other professional fees and expenses of the Company and the legal fees and other expenses incurred by Charles Stanley. The Company will also be responsible for other costs and expenses of or incidental to the Placing and Open Offer and the application for Admission, including the fees and expenses of the Receiving Agent and the Registrars, the UK Listing Authority and the London Stock Exchange and printing, advertising and distribution expenses;
- (g) the Company and the directors have given representations and warranties, *inter alia*, as to the accuracy and completeness of this document, the business of the Company and its financial condition, the rights attaching to the Ordinary Shares and the effect of the Placing and Open Offer. The Company has agreed to indemnify Charles Stanley against losses suffered or liabilities incurred in connection with the Placing and Open Offer, including any arising from any material misstatements or omissions from this document; and
- (h) the Company has undertaken, subject to limited exceptions, not to do certain things for a period ending one year after the date of Admission without the consent of Charles Stanley including: (i) not to do or commit to be done any act or thing in relation to any transaction which is of a size and nature that would be classified as either a Class 1 transaction or a reverse takeover for the purposes of Chapter 10 of the Listing Rules, which changes the general nature of the business of the Group from that described in this document, or in relation to any equity fund raising, or any other issue of Ordinary Shares except pursuant to existing employee share option schemes, including an issue of a size equal to more than 10 per cent. of the Company's issued ordinary share capital following Admission; (ii) not to make any public announcement, public statement or public communication regarding the Company or any subsidiary or associated undertaking of the Company, or (iii) not to enter into any commitment or agreement or arrangement or do or permit to be done any act or thing (a) which would give rise to an obligation to make an announcement to the London Stock Exchange in accordance with the Listing Rules; or (b) which would constitute a significant change in a matter contained in this document or a significant new matter capable of affecting assessment of the Ordinary Shares.

A copy of the Placing Agreement is available for inspection at the address specified in paragraph 13 of Part 10 of this document.

5. Lock-up arrangements

Pursuant to the AIM Rules, those persons who were directors of the Company as at 20 April 1999, the date of admission of the Ordinary Shares to AIM, undertook not to dispose of any interest in their Ordinary Shares for a period of one year from that date, subject to the exceptions provided for in the AIM Rules. There were no other persons who, by virtue of holding at that date any interest in 1 per cent. or more of the Ordinary Shares, were required by the AIM Rules to give a similar undertaking.

Although this undertaking expired on 20 April 2000, the directors have not made any sales of their Ordinary Shares since 20 April 1999 other than in the case of one director who sold 2,500 Ordinary Shares on 2 May 2000 in order to raise money to pay medical expenses for a family member. Additionally, certain of the directors intend to dispose of an aggregate total of 275,768 Ordinary Shares by way of the gifts set out in paragraph 5.2 of Part 10 of this document.

The Company and Charles Stanley have agreed that, having regard to the fact that there has been a public market in the Ordinary Shares since 20 April 1999, that the directors undertook not to dispose of any interest in their Ordinary Shares for one year from that date pursuant to the AIM Rules and that no significant sales of Ordinary Shares have been made by any of the directors since that date, no absolute prohibition should be imposed on the directors, senior management and substantial shareholders of the Company with regard to the disposal of any of the Company's securities, including their Ordinary Shares, following Admission.

Each of the directors has, however, given an undertaking to Charles Stanley in the Placing Agreement that, in order not to prejudice the maintenance of an orderly market in the Ordinary Shares, he or she will not, and will procure that any of his or her connected persons (as defined in section 346 of the Act) who hold Ordinary Shares will not, without the consent of Charles Stanley (such consent not to be unreasonably withheld) and without consulting Charles Stanley, transfer or otherwise dispose of any Ordinary Shares (including any Ordinary Shares acquired at any time after Admission) from Admission for a period ending on the date falling six months from Admission.

The Company has further resolved to adopt the Model Code concerning dealings in shares, which forms part of the Listing Rules. The directors have undertaken to Charles Stanley in the Placing Agreement to observe the provisions of the Model Code, and it is the policy of the Company to enforce compliance with the Model Code by the directors and other senior managers of the Company.

The Company is satisfied that, having regard to the circumstances particular to this Company, the undertakings given by each director to Charles Stanley in the Placing Agreement and their compliance with the Model Code will be adequate to ensure that an orderly market in the Ordinary Shares will not be prejudiced by the directors following Admission.

PART 12

DEFINITIONS

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

"Act"	the Companies Act 1985, as amended
"Admission"	admission to the Official List of the ordinary share capital of the Company, issued and to be issued pursuant to the Placing and Open Offer
"Affinity Australia"	Affinity Internet Pty Limited, formerly Affinity Australia Pty Limited, formerly VIP Australia Pty Limited
"AIM"	the Alternative Investment Market of the London Stock Exchange
"AIM Rules"	the admission rules of AIM comprised in chapter 16 of the Rules of the London Stock Exchange
"Alta Vista"	Alta Vista Company
"AOL"	America Online, Inc.
"Application Form"	the application form accompanying this document for use by Qualifying Shareholders in connection with the Open Offer
"Australia.com"	Australia.com Pty Limited
"Brightfibre"	Brightfibre Communications plc, a wholly-owned subsidiary of the Company
"BT"	British Telecommunications plc
"Cable & Wireless"	Cable & Wireless Communications Services Limited
"certificated" or "in certificated form"	not in uncertificated form
"Charles Stanley"	Charles Stanley & Company Limited
"Cisco"	Cisco Systems Inc.
"client"	an entity with which VIP has concluded an agreement to provide Internet access services to that entity's customers or members
"Clientlogic"	the trading name of Professional Support Centre Limited, which traded under the name Softbank Services Group until 1 March 1999
"COLT Telecommunications" or "COLT"	COLT Telecommunications plc
"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 the Listing Rules
"Company" or "Affinity"	Affinity Internet Holdings PLC
"CPN"	Cisco Partner Network
"CREST"	the UK based system for the paperless settlement of trades in listed securities, of which CRESTCo Limited is the operator
"Directors" or "Board"	the board of directors of the Company
"directors"	the respective directors of the Company
"EGO Maniacs"	EGO Maniacs.net Limited, a wholly-owned subsidiary of the Company
"Engage"	Engage Technologies Limited
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company convened for 10.00 am on 23 October 2000, the notice of which is set out at the end of this document

"EU"	the European Union
"Form of Proxy"	the pre-paid form of proxy for use at the EGM which accompanies this document
"Freeserve"	Freeserve plc
"gameplay.com"	gameplay.com plc
"GPRS"	general packet radio service
"Group" or "Affinity Group"	the Company and its subsidiaries as set out in Part 10 of this document
"ICL"	International Computers Limited
"Listing Rules"	The Listing Rules of the UK Listing Authority
"London Stock Exchange"	the London Stock Exchange plc
"Mister Mail"	Mister Mail BV
"New Ordinary Shares"	the 2,425,596 new Ordinary Shares which are to be issued by the Company pursuant to the Placing and Open Offer
"NTL"	NTL, Inc.
"Official List"	the Official List of the UK Listing Authority
"Open Offer"	the conditional invitation, by Charles Stanley on behalf of the Company, to Qualifying Shareholders to apply for New Ordinary Shares on the terms and conditions set out in Part 2 of this document and on the Application Form
"Ordinary Shares"	ordinary shares of 10p each in the capital of the Company
"Overseas Shareholders"	Shareholders on the register of members of the Company on the Record Date, who do not have a registered address in the United Kingdom
"Placing"	the placing of 2,425,596 New Ordinary Shares, subject, in the case of 1,000,195 New Ordinary Shares, to recall to satisfy valid applications by Qualifying Shareholders pursuant to the Open Offer
"Placing Agreement"	the agreement relating to the Placing and Open Offer dated 27 September 2000 and made between (1) the Company (2) Charles Stanley and (3) the directors, details of which are set out in Part 11 of this document
"Placing Price"	£10 per New Ordinary Share
"Powergen"	Powergen UK plc
"Qualifying Shareholders"	Shareholders on the register of members of the Company on the Record Date, excluding certain Overseas Shareholders as described in paragraph 7 of Part 2 of this document
"Record Date"	close of business on 22 September 2000
"Registrars"	Computershare Services PLC
"Regulations"	the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)
"Resolution"	the special resolution set out in the notice of the EGM
"Sega"	Dreamarena Limited, a wholly-owned subsidiary of Sega Europe Limited
"SegaSoft"	SegaSoft Networks, Inc.
"Shareholders"	registered holders of Ordinary Shares from time to time
"Share Option Schemes"	the Affinity Internet Holdings PLC Approved Share Option Scheme and the Affinity Internet Holdings PLC Unapproved Share Option Scheme

"Singers"	Singer & Friedlander Limited
"Sponsorship Letter"	the letter from Charles Stanley to the Company dated 2 August 2000, details of which are set out in paragraph 7 of Part 10 of this document
"Synigence"	Synigence Group plc, formerly Healix Group plc
"TAXI"	TAXI Interactive Limited, a wholly-owned subsidiary of the Company
"TCS"	TeleCentric Solutions Limited, an undertaking which is 50 per cent. owned by the Company
"Tiny Computers"	Tiny Computers Limited
"TransAffinity"	TransAffinity Inc.
"Trans National"	Trans National Group Services, LLC
"UITF 17"	Note 17 published by the Urgent Issues Task Force of the Accounting Standards Board
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part IV of the Financial Services Act 1986 and in the exercise of its function in respect of the admission to the Official List otherwise than in accordance with Part IV of the Financial Services Act 1986
"uncertificated" or in "uncertificated form"	recorded on the register of the security concerned as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
"Unisys"	Unisys Limited
"Versatel"	Versatel Telecom Europe BV
"VIP" or "Virtual Internet Provider"	Virtual Internet Provider Limited, a wholly-owned subsidiary of the Company
"Vodafone"	Vodafone Airtouch plc

PART 13

GLOSSARY

"active end-user"	an end-user who has accessed their registered account in the last 60 days
"B2C"	business to consumer
"bandwidth"	measure of capacity for access to the Internet
"brand launch"	the launch of services by the Group on behalf of a client in the name of a consumer brand
"branded Internet access"	Internet access using a portal badged with the brands of organisations or companies with strong brand recognition
"branded telecommunications"	the provision of telecommunications services using the brands of organisations or companies with strong brand recognition
"broadband access"	access to the Internet by means other than a traditional modem
"browser"	software used by an end-user in navigating around the Internet
"CD-Rom"	medium through which software is distributed to an end-user via compact disc
"churn"	the increase in inactive end-users divided by the sum of the number of active end-users at the start of the relevant quarter and the increase in the number of registered accounts during the quarter
"community services"	services provided to a community, being a group of users of the Internet with a common identified sphere of interest, such as computer games
"connectivity"	the extent to which individuals have connections with the Internet
"convergent billing"	billing allowing the bundling of many services onto a single invoice
"cookie"	information which is stored in the end-user's hard drive in his or her computer and is accessed by a server when the end-user connects to a web-site. It is used to track the web-sites visited by the end-user
"CRM"	customer relationship management
"convergent billing system"	billing system allowing the bundling of many services onto a single invoice
"dial-up access"	connection to the Internet by dialling via a modem over a fixed telephone line
"e-commerce"	sale of goods and services conducted through the medium of the Internet
"end-user"	individual using Internet access services
"hard-coding"	process of changing software at source to preclude modification of the software by end-users
"home page"	initial point of access to a web-site
"inactive end-user"	an end-user who has not accessed their registered account in the last 60 days
"inactive registered account"	registered account which has not been accessed in the past 60 days

"indirect access calls"	telephone calls billed by a switchless telecommunications reseller
"indirect access services"	services provided by a switchless telecommunications reseller
"interconnect revenues"	revenues derived from telecommunications providers relating to call charges from voice or Internet traffic
"Internet"	international network linking computers over telephone lines
"ISP"	Internet service provider
"m-commerce"	sale of goods and services conducted through the mobile telephone network
"online"	on a PC linked to the Internet
"online entertainment"	games and related consumer content provided over the Internet
"online retailer"	person who sells goods or services by retail through the medium of the Internet
"PC"	personal computer
"portal"	focal point of interest on the Internet for Internet users
"registered account"	the account of an end-user who has registered his or her personal details with the Group
"router"	industrial modem
"server"	powerful computer used as a store of software and data, most frequently accessed from a remote location
"switchless telecommunications reseller"	reseller of network capacity provided by other telecommunications companies
"unmetered access"	Internet access the cost of which for the end-user is not entirely dependent on the time spent by the end-user online.
"WAP"	a consumer, software and networking standard protocol for mobile telephones to be used in connection with the Internet to allow browsing
"web-site"	a location on the Internet defined by a unique address that provides content or service to users
"wireless access"	access to the internet not requiring a physical connection to the Internet
"28 day active accounts"	registered accounts which have been accessed at least once during the previous 28 days
"60 day active accounts"	registered accounts which have been accessed at least once during the previous 60 days

PART 14

NOTICE OF EXTRAORDINARY GENERAL MEETING

Affinity Internet Holdings plc

(Registered and incorporated in England and Wales No. 3681853)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Affinity Internet Holdings PLC (the "Company") will be held at the offices of Charles Stanley, 25 Luke Street, London EC2A 4AR at 10.00 am on 23 October 2000 for the purpose of considering and (if thought fit) passing the following resolution, which will be proposed as a special resolution:

SPECIAL RESOLUTION

THAT:

- (a) in addition to the authority conferred by resolutions passed at the Annual General Meeting of the Company on 9 June 2000, the directors of the Company be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to exercise all powers of the Company to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal amount of £24,255,960 PROVIDED THAT the authority hereby conferred shall (unless previously varied, revoked or extended by the Company in general meeting) expire on 31 December 2000, save that the Company may at any time before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors of the Company may allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired;
- (b) in addition to the authority conferred by resolutions passed at the Annual General Meeting of the Company on 9 June 2000, the directors of the Company be and are hereby generally and unconditionally authorised in accordance with section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) pursuant to the authority conferred by paragraph (a) of this resolution as if section 89(1) of the Act did not apply to the allotment, PROVIDED THAT this authority is limited to the allotment of 2,425,596 ordinary shares of 10 pence each in connection with the Placing and Open Offer (as defined in the prospectus dated 28 September 2000 containing the notice of the meeting at which this resolution is proposed) and FURTHER PROVIDED THAT this authority shall expire on 31 December 2000, save that the Company may at any time before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired.

Registered office:

Victoria House
2nd Floor
64 Paul Street
London EC2A 4NA

By Order of the Board

Peter Cole
Secretary

Dated 28 September 2000

Note 1: A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. The proxy need not also be a member of the Company. A form of proxy is enclosed for use at the meeting.

Note 2: To be valid, a form of proxy and, if applicable, any authority under which it is signed, or a certified copy of such authority, must be lodged at the offices of Computershare Services PLC, PO Box 1075, The Pavilions, Bristol BS99 3FA, not later than 48 hours before the time appointed for holding the meeting. Completion and return of a form of proxy will not prevent a member from attending and voting at the meeting should he so wish.

Note 3: For the purposes of determining who is entitled to attend or vote (whether on a show of hands or a poll) at the meeting, a person must be entered on the register of members of the Company not later than 48 hours before the time of the meeting or any adjournment thereof.