

SEPARATOR SHEET

3681853



AFFINITY INTERNET HOLDINGS PLC



THIS DOCUMENT IS IMPORTANT. If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

This document, which is an Admission Document in relation to the Alternative Investment Market of the London Stock Exchange ("AIM"), has been drawn up as a prospectus in accordance with the Public Offers of Securities Regulations 1995 and a copy of this document has been delivered for registration to the Registrar of Companies in England and Wales in accordance with regulation 4(2) of those Regulations.

Application has been made for the whole of the ordinary share capital of Affinity Internet Holdings PLC ("the Company"), issued and to be issued immediately following the Placing, to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser.

The rules of AIM are less demanding than those of the Official List of the London Stock Exchange. It is emphasised that no application is being made for admission of these securities to the Official List of the London Stock Exchange. Further, the London Stock Exchange has not itself approved the contents of this document.

Affinity Internet Holdings PLC

(Incorporated in England and Wales under the Companies Act 1985)

(Registered No. 3681853)

Placing of

3,929,000 Ordinary Shares of 10p each

at a price of 70p per share

Admission to the Alternative Investment Market

Nominated adviser and nominated broker

Charles Stanley & Company Limited

<i>Authorised</i>		Share capital immediately following the Placing	<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
£5,000,000	50,000,000	Ordinary Shares of 10p each	£1,821,500	18,215,000

To the best of the knowledge and belief of the directors of the Company, 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 there is no omission likely to affect the import of such information. The directors, whose names are set out on page 7 of this document, accept responsibility accordingly.

Charles Stanley & Company Limited, 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 the admission of the Company's Ordinary Shares to trading on AIM. 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 or the admission of the Company's Ordinary Shares to trading on AIM. No representation, express or implied, is made by Charles Stanley & Company Limited as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued).

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DEFINITIONS

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

"Act"	the Companies Act 1985, as amended
"Admission"	admission of the issued Ordinary Shares and the Placing Shares to trading on AIM
"AIM"	the Alternative Investment Market of the London Stock Exchange
"Approved Share Option Scheme"	the Company's proposed approved share option scheme, details of which are set out in paragraph 3 of Part 4 of this document
"Cable & Wireless"	Cable & Wireless Communications Services Limited
"Charles Stanley"	Charles Stanley & Company Limited, regulated by The Securities and Futures Authority Limited and a member of the London Stock Exchange, being the Company's nominated adviser and nominated broker
"Client"	an entity with which VIP has concluded an agreement to provide internet access services to that entity's customers or members
"Clientlogic"	current trading name of Professional Support Centre Limited, which traded under the name Softbank Services Group until 1 March 1999
"Cisco"	Cisco Systems Inc.
"Company"	Affinity Internet Holdings PLC
"Directors" or "Board"	the board of directors of the Company
"directors"	the respective directors of the Company
"Group"	the Company, VIP and Profileburst
"ICL"	International Computers Limited
"Issue Price"	70p per Placing Share
"London Stock Exchange"	London Stock Exchange Limited
"Martin Dawes"	Martin Dawes Telecommunications Limited
"Ordinary Shares"	ordinary shares of 10p each in the capital of the Company
"Placing"	the placing of the Placing Shares at the Issue Price, as described in this document
"Placing Agreement"	the agreement relating to the Placing, details of which are set out in paragraph 7 of Part 4 of this document
"Placing Shares"	the 3,929,000 new Ordinary Shares which are the subject of the Placing
"Profileburst"	Profileburst Limited, a dormant subsidiary of the Company
"Regulations"	the Public Offers of Securities Regulations 1995
"Rules"	the admission rules of AIM comprised in chapter 16 of the Rules of the London Stock Exchange
"Tiny"	Tiny On-line Limited
"Toys "R" Us"	Toys "R" Us Limited
"Vendors"	holders of all the issued "A" ordinary shares and "B" ordinary shares in the capital of VIP up to completion of the share for share exchange agreement dated 9 April 1999, details of which are set out in paragraph 7 of Part 4 of this document
"VIP"	Virtual Internet Provider Limited, the Company's wholly-owned operating subsidiary
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland

GLOSSARY

"branded internet access provider"	a provider of internet access using the brands of organisations or companies with strong brand recognition
"browser"	software used by the end-user in manoeuvring around the internet
"call revenue share payments"	revenue paid by Cable & Wireless in respect of telecommunications traffic
"CD-Rom"	medium through which software is distributed to the end-user via compact disc
"dial-up access"	connection to the internet by dialling via a modem over a fixed telephone line
"end-user"	individual using internet access services
"Freeserve"	the free internet access service offered by Dixons Group Plc
"hard-coding"	a process of changing software at source to preclude modification of the software by end-users
"home page"	the initial access point to a website
"ISP"	internet service provider
"portal"	the point of entry onto the internet
"router"	industrial modem
"server"	a powerful computer used as a store of software and data, most frequently accessed from a remote location

KEY INFORMATION

The following information should be read in conjunction with the full text of this document from which it is derived:

- Affinity Internet Holdings PLC, through its wholly-owned trading subsidiary, VIP, acts as a branded internet access provider to a range of Clients.
- VIP was set up to operate as a branded internet access provider to attract a large number of end-users onto the internet through harnessing end-users' affinities with existing brands belonging to VIP's Clients.
- VIP generates revenues from end-user subscriptions and, more significantly, from call revenue share payments received from Cable & Wireless and shared with its Clients. The Directors anticipate that call revenue share payments will represent VIP's most significant revenue stream in the immediate future as end-users move away from subscription-based services to free internet access.
- The Directors believe that the rapid growth in end-user registrations enjoyed by VIP between 1 January 1999 and 9 April 1999 has derived from the introduction of free internet access by VIP.
- The Directors also believe that revenue streams from advertising and other value-added products will become more significant in the medium to long term.
- Over the initial trading period to 31 December 1998, VIP made a loss before and after tax of £921,652 on sales of £167,005.
- The Directors consider that, in order to facilitate the expansion of the project management and sales force, the Group needs to raise additional working capital. The Directors believe that the admission of the Ordinary Shares of the Company to trading on AIM will raise the profile of VIP, not only with its suppliers, but also with its Clients.
- The Company is raising approximately £2.75 million before expenses through a placing of 3,929,000 Placing Shares at 70p per share. Following the Placing, the Directors will own approximately 70.4 per cent. of the enlarged issued share capital of the Company.
- While the Directors intend to retain the earnings of the Group to fund expansion, it is their intention in the longer term to pay dividends at a level commensurate with the Company's prevailing capital requirements.

MARKET INFORMATION

Issue Price	70p
Number of Ordinary Shares in issue following the Placing	18,215,000
Market capitalisation following the Placing at the Issue Price	£12,750,500
Placing Shares as a percentage of the enlarged issued share capital	21.6 per cent.
Proceeds of the Placing to be received by the Company net of expenses	£2,350,300
Loss before and after tax for the period ended 31 December 1998	£921,652

EXPECTED TIMETABLE

Dealings in the Ordinary Shares on AIM expected to commence	Tuesday 20 April 1999
Delivery of shares into CREST accounts	Tuesday 20 April 1999
Definitive share certificates despatched by	Tuesday 27 April 1999

DIRECTORS, SECRETARY AND ADVISERS

Directors:	<p>Terence Plummer Wayne Lochner Robert Ferguson Southward Allan Redfern Stuart Paul Barker ACA</p> <p>all of Victoria House 2nd Floor 64 Paul Street London EC2A 4NA</p>	<p><i>Executive chairman</i> <i>Chief executive officer</i> <i>Technical director</i> <i>Business development director</i> <i>Finance director</i></p>
Company secretary and registered office:	<p>Peter Cole ACIS Victoria House 2nd Floor 64 Paul Street London EC2A 4NA</p>	
Nominated adviser and nominated broker:	<p>Charles Stanley & Company Limited 25 Luke Street London EC2A 4AR</p>	
Reporting accountants and proposed auditors to the Group:	<p>Baker Tilly Chartered Accountants and Registered Auditors 2 Bloomsbury Street London WC1B 3ST</p>	
Auditors to VIP:	<p>Masons Chartered Accountants and Registered Auditors 20/24 High Street Rayleigh Essex SS6 7EF</p>	
Solicitors to the Company:	<p>Hammond Suddards 16 John Dalton Street Manchester M60 8HS</p>	
Bankers:	<p>Barclays Bank PLC PO Box 4578 155 Brompton Road London SW3 1XD</p> <p>and</p> <p>Singer & Friedlander Limited 21 New Street Bishopsgate London EC2M 4HR</p>	
Registrars:	<p>Moorgate Registrars plc Dukesmead House 39 High Street Chelmsford Essex CM1 1DE</p>	

PART 1

INFORMATION ON AFFINITY INTERNET HOLDINGS PLC

Introduction

VIP, the wholesale branded internet access provider founded by Terry Plummer and Wayne Lochner, was incorporated in July 1997. Prior to the commencement of sales in June 1998, VIP undertook product research and development and concluded agreements with ICL, Cable & Wireless, Clientlogic and Cisco.

On 9 April 1999, the Company, whose shareholders are Terry Plummer and Wayne Lochner, entered into an agreement with the Vendors to acquire the entire issued share capital of VIP.

The Company is raising £2.75 million before expenses through a placing of 3,929,000 new Ordinary Shares at 70p per share. The Company intends to use the net proceeds of the Placing to strengthen VIP's working capital and fund VIP's expansion through the recruitment of additional project management and sales staff.

The business

Introduction

VIP acts as a branded internet access provider, using its strategic relationships with leading industry suppliers such as ICL, Cable & Wireless, Clientlogic and Cisco to provide itself with expertise in telecommunications services, helpdesk facilities and computer hardware and software. The Directors believe that outsourcing these functions to Cable & Wireless, Clientlogic, Cisco and ICL, respectively, involves less proprietary risk and a lower financial investment for VIP than would be the case if VIP chose to develop its own generic internet platform.

VIP was set up to operate as a branded internet access provider to attract large numbers of end-users onto the internet through harnessing end-users' affinities with existing brands belonging to VIP's Clients. The Directors believe that high end-user growth can be promoted through working with large organisations that have both strong brand recognition and access to substantial customer bases.

VIP generates revenues by collecting end-user subscriptions and, more significantly, from call revenue share payments received from Cable & Wireless. After these gross revenue streams are received by VIP, it accounts to its Clients for their respective shares of such revenue streams on a monthly or quarterly basis.

At 31 March 1999, VIP had signed contracts with twenty-five Clients, including Arsenal Football Club plc, Toys "R" Us, Tiny, the University of Lancaster and Martin Dawes.

The product

VIP's product comprises a technologically advanced internet platform that allows a wide variety of Clients to operate under their own brands from a single generic system. 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, and is therefore, in effect, branded. This differentiates the software from Dixons Group Plc's Freeserve product, which allows the end-user to choose his or her own home page. The Directors believe that this differentiation will become more important in the future with the sale of advertising on Clients' home pages, in that it will guarantee end-user "hits" for advertisers.

The relevant hardware and software is updated by ICL, as technology develops, at no direct cost to the Client or VIP. The Directors expect that the second phase of development will include the addition of "portals", which will enable both the Client and end-user to customise the appearance of the home page to their own specific needs.

Although VIP is at present concentrating on selling its basic product, branded internet access, it is also seeking to form relationships with preferred suppliers of value-added products which VIP could offer to Clients in addition to internet access, in return for a percentage of the income generated. Agreements have already been signed for the provision to Clients of "Gamezone", an on-line games package, and "My Taxi", a personal shopping assistant, and agreement has been reached for the provision of "Masterclass", a free tutorial session on using the internet, and "Engage/Accipiter", the profiling and advertisement serving software.

Clients

VIP's product enables its Clients, which are organisations and companies with strong brand recognition, to make available internet access without capital investment or the need to train technical staff on their part.

Although VIP is the ISP via its strategic relationship with its major suppliers, the end-user sees only the image supplied by the Client.

The Directors believe that although VIP's product has been readily adopted by certain football clubs and similar organisations that attract strong brand loyalty, it has wider applications for business Clients, given the opportunities that are available in terms of the dissemination of information, advertising and sales, as end-users access the internet through the Client's branded browser and 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 process.

VIP generates new Clients through its sales team, consisting of eleven people, including three consultants, on 9 April 1999. It is the intention of the Company to use a significant proportion of the net proceeds of the Placing to expand VIP's project management and sales team.

Sources of revenue

VIP's product was initially launched as a subscription-based internet access service, with VIP retaining a proportion of the monthly subscription charge. VIP not only contracts with its Clients, but also directly with the end-user through a registration process. Accordingly, VIP collects gross subscriptions from end-users on a monthly basis and accounts monthly or quarterly to the Client for its share of revenues.

VIP generates revenues not just from end-user subscriptions but also, more significantly, from call revenue share payments received from Cable & Wireless.

Call revenue share payments are dependent upon the number of minutes end-users spend on-line. The Company's prospects depend on a minimum average number of minutes usage per month per end-user. The Directors anticipate that call revenue share payments in the future will be based on at least this degree of usage.

Call revenue share payments are also dependent upon the times at which end-users use the service. The Directors anticipate that call revenue share payments will in the future be derived from a pattern of use in this respect similar to that experienced by VIP to date.

The Directors are of the opinion that, following the introduction of Freeserve by Dixons Group Plc in September 1998, more Clients, both existing and new, will want to provide free internet access for end-users and that end-users will move away from subscription-based services to such access. VIP offers a free access service option, with the call revenue share payments received by VIP from Cable & Wireless shared with the Client. Consequently subscription revenues will decline as a proportion of overall revenues received by VIP. The Directors therefore anticipate that call revenue share payments will represent VIP's most significant revenue stream in the immediate future. However, the Directors also believe that revenue streams from advertising and other value-added products will become more significant in the medium to long term.

VIP is able to monitor monthly end-user numbers for each Client and income derived from end-user subscriptions and call revenue share payments, from information provided by ICL and Cable & Wireless. VIP retains a large proportion of its call revenue share payments or retains sufficient to cover its direct costs per end-user per month before sharing some of the call revenue share payments with the Client concerned.

The Directors believe that the rapid growth in end-user registrations enjoyed by VIP between 1 January 1999 and 9 April 1999 of over 1,000 per cent. has derived from the introduction of free internet access by VIP.

Sales are also generated through a network of value-added resellers and from VIP's status as ICL's preferred sales channel for branded internet access.

VIP has four strategic relationships:

- **ICL**
ICL provides VIP with a single generic internet platform, as well as hosting VIP's entire web site requirement from 3 separate facilities in the UK. ICL also builds infrastructure for computer telephony integration and e-commerce which is supplied to VIP under the terms of the contract between them.
- **Cable & Wireless**
Cable & Wireless provides VIP with its UK telephony access and related services. The end-users' telecoms service provider is responsible for billing the end-user, with Cable & Wireless paying call revenue share payments direct to VIP. Therefore VIP has no credit risk exposure with regard to end-users.
- **Clientlogic**
Clientlogic provides VIP with technical support and helpdesk facilities through two call centres in Dublin and Watford. Clientlogic also provides the premium rate help lines which generate additional revenue for VIP.
- **Cisco**
VIP utilises Cisco routers and dial-up access servers which are located at ICL premises. Additional routers are obtained as end-user numbers increase.

The market

The internet is now a part of everyday language. It has been described as the fastest growing consumer product since the video cassette recorder and has an estimated 3 million subscribers with 7 million users in the UK. The Directors believe that use of the internet will become significantly more widespread to the point where it will become a part of everyday life.

Integration between telephones, personal computers, televisions and the internet is already a technological possibility, with international telephone calls carried over the internet at local call rates, and with on-line banking and downloading of music and newspapers. Industry sources indicate that UK businesses are giving a high priority to developing their internet activities, and, whilst 54 per cent. of medium sized companies and 33 per cent. of small companies were already actively using internet technology, only 4 per cent. of small and medium sized enterprises (SMEs) thought the internet would remain unimportant to them over the next 5 years.

Currently, revenue streams are generated from call revenue share payments received from telecommunications companies which are themselves based on the dial-up access accounts of the end-users. Research shows there was an 83 per cent. growth in the UK dial-up market between June 1997 (1.1 million accounts) and June 1998 (2 million accounts).

The Directors believe that revenues will be derived from a number of sources in the future. Income will be derived from all manner of products such as games, music, video and telephony services, but most notably advertising and e-commerce.

Reuters reported a four-fold increase in UK advertising revenues generated on the internet in 1997 to £6 million, and expect the market to grow to £80 million by 2000. However, the UK advertising market is still behind the US model which is currently counted in billions of US dollars. The future for e-commerce looks equally bright as, although according to a recent survey only 30 per cent. of residential users have already made purchases on-line, there are significant gaps between the percentage of those willing to purchase specific goods on-line and the percentage of those who have already purchased on-line.

Reasons for the Placing and the use of funds

The Company is raising £2.75 million before expenses through a placing of 3,929,000 new Ordinary Shares at 70p per share. The net proceeds of the Placing, amounting to approximately £2.35 million, will:

- raise the profile of VIP's products, thereby assisting in rapid market penetration;
- enable VIP to expand its project management and sales force and to develop its sales channels;
- enable the Group to maintain and enhance its management, control and reporting structures;
- provide the Company with extra working capital to enable VIP to fulfill its potential in the market place; and
- enable the Group to repay indebtedness of £50,000 to Bannacount Exports Limited, a subsidiary of Plumloch Investments (UK) Limited, which is a company controlled by Terry Plummer and Wayne Lochner.

At the Issue Price of 70p per Ordinary Share, the market capitalisation of the Company, following the Placing, will be £12.75 million. Following the Placing, the Directors will own approximately 70.4 per cent. of the enlarged issued share capital of the Company.

Under the Placing Agreement Charles Stanley has conditionally agreed, as agent for the Company, to use its reasonable endeavours to procure subscribers for the Placing Shares at the Issue Price. Fees and commissions are payable to Charles Stanley for its services under the Placing Agreement. The agreement contains warranties and indemnities given by the Company and the directors to Charles Stanley and also contains provisions entitling Charles Stanley to terminate its obligations in certain circumstances prior to Admission.

Further particulars of the Placing Agreement are set out in paragraph 7(g) of Part 4 of this document.

None of the existing shareholders of the Company are selling shares in the Placing. The Directors have agreed not to sell any of their interests in the Ordinary Shares of the Company for a period of one year from the date of Admission.

The Placing Shares will be in registered form and, on Admission, will rank *pari passu* in all respects with the other issued Ordinary Shares.

It is expected that definitive title to the Placing Shares will be delivered either under CREST on the date of Admission, where delivery is requested in uncertificated form, or by posting share certificates by first class post by no later than 27 April 1999 where delivery is requested in certificated form. Delivery of share certificates by first class post will be at the risk of the shareholder. No temporary documents of title will be issued.

Financial record

An accountants' report on the Group by Baker Tilly, Chartered Accountants, for the period ended 31 December 1998, is set out in Part 2 of this document. The trading record of VIP, which has been extracted from the accountants' report in Part 2, is summarised below:

	Notes	1998 £
Turnover		167,005
Cost of sales		(502,056)
Gross loss		(335,051)
Selling costs		(69,529)
Administrative expenses		(508,869)
Operating loss		(913,449)
Interest payable		(8,203)
Loss on ordinary activities before taxation		<u>(921,652)</u>

Current trading and prospects

Since the end of the financial year VIP has experienced rapid growth in the number of end-users of its services. The number of registered end-users has expanded by more than 1,000 per cent. between the start of the year and 9 April 1999.

The Directors believe that, aside from demonstrating the potential growth in this sector, the current number of end-users is significant for two reasons. First of all, with the current number of end-users, VIP has secured reductions to the costs per end-user during this period of 30.67 per cent.

The second reason why growth is significant is in terms of revenue earned. Call revenue share payments to VIP are dependent on traffic volumes, and there are direct correlations between the increase in the number of end users and the revenues generated from the call revenue share payments.

With a number of major contracts in final negotiations, as well as imminent launches relating to contracts already signed, the Directors believe that the growth in the number of registered end-users will not slow in the short term.

Again, as well as the number of end-users which VIP attracts, the amount of use which each end-user makes of VIP's services is also significant. The Company's prospects depend on a minimum average number of minutes usage per month per end-user. In the light of VIP's experience of trading to date, the Directors anticipate that these levels of usage will be met.

The Company's financial year end is 31 December and the Directors intend to publish an interim report for the half year ended 30 June 1999 in September or October 1999.

Dividend policy

The Directors initially intend to retain the Group's earnings to fund further expansion. In the longer term the Directors intend to adopt a dividend policy appropriate to the Group's financial performance. This will take into account its ability to operate and grow and the need to retain a prudent level of cash resources.

Directors, management and employees

The success of the Group will depend largely on the expertise of the Directors. The Board currently consists of five directors. A brief biography of each director is set out below:

Directors

Terry Plummer – Executive chairman

Terry Plummer, aged 48, co-founder of VIP, has for many years been running his own export company, having previously been chief executive of Hobson Plc before its acquisition by Hillsdown Holdings Plc.

Wayne Lochner – Chief executive officer

Wayne Lochner, aged 42, co-founder of VIP, was most recently chief executive, Asia Pacific and Middle East, of MAI Plc (now United News and Media), having previously occupied a variety of overseas positions with M. W. Marshall & Co Limited, money brokers, including that of group treasurer during a £180 million management buy-out.

Robert Southward – Technical director

Robert Southward BA (Econ), aged 52, was appointed Technical Director in January 1999. He has spent his career of 30 years within the information technology industry in management and consultancy positions, notably with Bowater Plc and Caradon Everest Limited. His role is to plan medium and long term service capacity and to provide pre- and post-sales support.

Allan Redfern – Business development director

Allan Redfern, aged 53, has worked in the information technology sector since 1972 culminating in his appointment with ICL as Head of Internal Systems Worldwide. He has filled the role of managing director with two UK software design companies before joining VIP specifically to liaise with ICL.

Stuart Barker ACA– Finance director

Stuart Barker, aged 32, qualified in 1990 and worked in professional practice with Richard Keen, Chartered Accountants, until 1998 when he joined VIP as financial controller.

Management and employees

The Group currently employs 16 full time staff, excluding consultants.

The continued success of VIP requires the attraction, motivation and retention of key employees of a high calibre. In order to reward key employees and to reflect the Company's new status as a public company whose shares are traded on AIM, it is proposed that the Approved Share Option Scheme be established in due course, subject to Admission. Details of the Approved Share Option Scheme are set out in paragraph 3 of Part 4 of this document.

The following is an analysis of the areas in which the employees of the Group worked as at 31 March 1999:

	<i>Number of employees</i>
Sales and marketing	8
Management and administration	5
Technical	3

Year 2000 compliance

The Directors have considered the potential issues that year 2000 may have on the information technology systems operating within the Group. As the systems are all modern, the Directors are confident that they are year 2000 compliant. In addition, the Group is liaising with its major suppliers and has assurances that work is continuing to ensure that all their relevant systems will be year 2000 compliant and that there will be no disruption to the operations of the Group as a consequence of year 2000 issues. It is not possible to say when this work will be completed. It is also not possible to quantify the financial impact of these issues. It is estimated that the total costs involved to ensure that all relevant systems are year 2000 compliant will not have a material impact on the Group's finances.

Corporate governance

The Directors intend to comply with the recommendations of best practice as set out in the Combined Code and in this connection the Board has taken into account the guidance issued by the City Group for Smaller Companies. At present the Company has no non-executive directors, but will take steps to appoint some in due course.

The Directors intend to hold board meetings regularly throughout the year. The Board will be responsible for formulating, reviewing and approving strategy, budgets, acquisitions, capital expenditure and senior personnel appointments. The executive directors and senior management will meet regularly to consider operational matters.

An audit committee (consisting of three directors) and a remuneration committee (consisting of three directors) will be established with effect from Admission. The audit committee will meet at least twice a year and will be responsible for ensuring that the financial performance, position and prospects of the Company are properly monitored and reported on, and for meeting the auditors and reviewing their reports relating to accounts and internal controls. The remuneration committee will review the performance of executive directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. The remuneration committee will also determine the payment of bonuses to executive directors and the allocation of share options to employees.

Risk factors

- Demand for VIP's branded ISP services may be less than anticipated, or may be affected if new or existing competitors enter the same market
- As at 31 March 1999, VIP's five largest Clients accounted for 86 per cent. of total end-users
- The Directors anticipate that call revenue share payments will represent VIP's most significant revenue stream in the immediate future. This revenue is dependent upon the volume of traffic carried across the Cable & Wireless network
- The Directors anticipate that the minimum average number of minutes usage per month per end-user on which the prospects of the Company depend will be attained. However, there is no guarantee that this level of use will prevail in the future
- The Directors anticipate that call revenue share payments in the future will be derived from a pattern of use (in terms of the times at which the end-users use the service VIP is providing) similar to that experienced by VIP to date. However, there is no guarantee that this exact pattern of use will continue in the future
- Revenue streams from advertising and other value-added products may take longer to occur than currently anticipated
- Revenues from the provision of VIP's premium rate help lines to end-users may be adversely affected if in future a higher proportion of Clients choose to employ their own helpdesk facilities
- The Group's trading results and future activities may be restricted by unforeseen future changes to legislation relating to internet technologies and to the nature of the market in which the Group operates
- The Group's trading results could suffer if there is a downturn in the UK economy in general or in the Group's sector in particular
- The Ordinary Shares will not be admitted to the Official List of the London Stock Exchange but will be traded on AIM. There is no assurance that there will be a liquid market in the Ordinary Shares. An investment in the Company's Ordinary Shares may therefore be difficult to realise. As the market for shares in smaller public companies is less liquid than for larger public companies, share prices may be subject to greater fluctuation

Enterprise Investment Scheme and Venture Capital Trusts

The Company has applied for approval from the Inland Revenue that, on the basis of the facts supplied, the Ordinary Shares will qualify for investment under the Enterprise Investment Scheme ("EIS") and should be regarded as a qualifying holding for investment by Venture Capital Trusts ("VCTs"). The continuing availability of EIS relief, and the status of the Ordinary Shares as a qualifying holding for VCT purposes, will be conditional, *inter alia*, upon the Company continuing to satisfy the requirements for a qualifying company throughout a period of three years from the date of the investor making his investment, for EIS purposes, and, for VCT purposes, throughout the period the Ordinary Shares are held as a "qualifying holding".

The EIS allows the following tax reliefs for individual investors provided investments are held for five years:

- Initial income tax relief of 20 per cent.
- Exemption from capital gains tax ("CGT")

The EIS also allows CGT payable on chargeable gains realised by individuals and certain trustees to be deferred. To qualify for deferral, a sum equal to the amount of the chargeable gain must be invested (usually not more than one year before nor more than three years after the date on which the chargeable gain arises) in the ordinary share capital of an unquoted qualifying trading company or an unquoted company which is the parent of a qualifying trading group.

A claim for CGT deferral relief is made by the individual investors and/or trustees claiming the relief.

Investors considering taking advantage of any of the reliefs under the EIS or available to VCTs should seek individual advice in order that they may fully understand how the rules apply in their individual circumstances.

CREST

The Company's Articles of Association permit its shares to be evidenced in uncertificated form in accordance with the Uncertificated Securities Regulations 1995.

In accordance with the Uncertificated Securities Regulations 1995, the Board resolved on 1 April 1999 to apply to CRESTCo Limited for title to the Ordinary Shares, whether in issue or to be issued, to be transferred by means of the CREST paperless system. CREST is a voluntary system and, subject to certain limitations, holders of Ordinary Shares may choose to receive share certificates or hold Ordinary Shares in uncertificated form.

It is expected that the definitive title to Placing Shares will be delivered either under CREST on the date of their Admission where delivery is requested in uncertificated form, or by first class post by no later than five days where delivery is requested in certificated form. No temporary documents of title will be issued and the Ordinary Shares will be in registered form.

Other information

Your attention is drawn to the following:

- | | |
|---------------|-----------------------------------|
| Part 2 | Accountants' report on the Group |
| Part 3 | Pro forma statement of net assets |
| Part 4 | Additional information |

PART 2

ACCOUNTANTS' REPORT ON THE GROUP

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



BAKER TILLY

Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

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

12 April 1999 ✓

Dear Sirs

Affinity Internet Holdings PLC

Introduction

We report on the financial information set out below relating to Affinity Internet Holdings PLC ("the Company") and to Virtual Internet Provider Limited ("VIP") the company which it acquired on 9 April 1999. The financial information has been prepared in connection with the Placing of Ordinary Shares of 10p each in the Company ("the Placing") referred to in the prospectus dated 12 April 1999 ("the Prospectus").

Financial information

The Company

The Company was incorporated on 10 December 1998 under registered number 3681853 as YPCS 77 PLC, with an authorised share capital of £100,000 comprising 100,000 ordinary shares of £1 each of which two ordinary shares were issued on incorporation, paid up to 25 pence each and a further 49,998 shares were issued, paid up to 25 pence each on 26 March 1999. On 17 March 1999 the Company's name was changed to Affinity Internet Holdings PLC. On 1 April 1999, the authorised share capital was increased by £4,900,000 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 all the issued ordinary shares of VIP from the Vendors (as defined in the Prospectus), in consideration of the issue of 13,786,000 Ordinary Shares in the Company, fully paid up, and the Company agreeing to treat the unpaid amount on the 500,000 Ordinary Shares in the Company already in issue as paid in full. Subject to the above transactions the Company has not traded, incurred either a profit or a loss, or paid dividends or made any other distribution since incorporation.

VIP

VIP was incorporated on 3 July 1997 with an authorised share capital of £1,000,000 divided into 1,000,000 Ordinary shares of £1 each, of which 2 Ordinary shares were issued on incorporation and a further 98 Ordinary shares were issued for cash on 1 December 1997. On 1 October 1998 the share capital was reorganised such that the new authorised share capital comprised 8,000,000 'A' Ordinary shares of 10p each and 2,000,000 'B' Ordinary shares of 10p each. On the same date, VIP issued 649,000 'A' Ordinary shares and 374,984 'B' Ordinary shares. VIP remained dormant until 1 February 1998, after which its principal activity became that of branded internet access provider. No dividends have been declared or paid since incorporation.

Basis of preparation

The Company has not been required to prepare statutory accounts and the financial information set out below is based on the balance sheet of the Company which does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985 and has been prepared on the basis of the historical cost convention.

VIP's first accounts have been prepared for the period to 31 December 1998; trading commenced on 1 February 1998.

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

The financial information set out in this report is based on the above. We have not considered it necessary to make any adjustments thereto.

The financial information is set out as follows:

Section A: The Company
Section B: VIP

Responsibility

All financial information is the responsibility of the Directors of the Company.

The Directors of the Company are responsible for the contents of the Prospectus in which our report is included.

It is our responsibility to prepare the financial information set out in our report, 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 a consideration of evidence relevant to the amounts and disclosures in the financial information, including, where appropriate, evidence contained in the working papers of the auditors who audited the substance 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 Company's and VIP'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 forming our opinion regard has been made to the disclosure of certain unaudited financial information as set out above.

In our opinion, the financial information gives, for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995, a true and fair view of the state of affairs and profit or loss of the Company as at 12 April 1999 and VIP as at 31 December 1998 and of VIP's loss for the period then ended.

Consent

We consent to the inclusion of this report in the Prospectus and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Section A: The Company

1 Balance sheet

1.1 The balance sheet as at 12 April 1999 is set out below:

	Notes	£'000
Investment in subsidiary	1	<u>1,416</u>
Current assets:		
Cash at bank		<u>13</u>
Net current assets		<u>13</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>1,429</u></u>
 CAPITAL AND RESERVES		
Called up share capital	2	<u>1,429</u>
		<u><u>1,429</u></u>

1.2 Notes:

1 Investment in subsidiary

On 9 April 1999 the Company acquired the entire issued share capital of VIP in consideration of the issue of 13,786,000 ordinary shares of 10 pence each, all fully paid, and the Company agreeing to treat the amount unpaid (£37,500) on 500,000 ordinary shares, already in issue and paid up as to one quarter of their nominal value, as paid in full.

2 Share capital

Authorised

	1999 £
50,000,000 Ordinary Shares of 10 pence each	<u>5,000,000</u>

Allotted and fully paid

14,286,000 Ordinary Shares of 10 pence each	<u>1,428,600</u>
---	------------------

Movements during the period

	Ordinary shares of 10 pence each £
Issues during the period	<u>1,428,600</u>
At 6 April 1999	<u><u>1,428,600</u></u>

The Company was incorporated with an authorised share capital of 100,000 ordinary shares of £1 each, of which 2 shares, paid up as to 25 pence each, were issued on incorporation, and a further 49,998 shares, paid up as to 25 pence each, were issued on 26 March 1999. On 1 April 1999, the authorised share capital was increased to £5,000,000. On the same date the issued and unissued authorised share capital was subdivided into ordinary shares of 10 pence each. On 9 April 1999, the Company acquired the entire issued share capital of VIP, and as part of the consideration issued 13,786,000 ordinary shares in the Company. At 12 April 1999 all issued shares were fully paid up.

Section B: VIP

1 Accounting policies

(a) *Accounting convention*

The financial information has been prepared in accordance with applicable Accounting Standards under the historical cost convention on the going concern basis.

(b) *Fundamental accounting concept*

VIP had net current liabilities of £854,182 at 31 December 1998, and creditors falling due after more than one year of £40,263. It continues to incur losses, thus increasing net liabilities. The company's overdraft with Barclays Bank was due for review on 31 March 1999, and additional funds are required to satisfy the working capital requirement for the next 12 months. The Directors have negotiated an overdraft facility with Singer & Friedlander Limited in the sum of £750,000. The Company, which acquired the entire issued share capital of VIP on 9 April 1999, seeks to raise £2.75 million from the Placing. As at 12 April 1999 the Company's nominated adviser and broker had received irrevocable letters of undertaking to subscribe for shares in cash in the sum of £2.75 million (before costs), under the Placing. The Directors of the Company are confident that the net proceeds from the Placing will be sufficient to meet the working capital requirements of the Group. On this basis, the going concern concept has been applied.

(c) *Turnover*

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT. VIP generates income from Internet services and subscriptions. Calculation of this income is dependent on internet usage which is quantified by third parties and the company is reliant upon this information.

(d) *Depreciation*

Depreciation is calculated to write down the cost, less estimated useful value, of all tangible fixed assets over their expected useful lives. The rates generally applicable are:

Motor vehicles	25 per cent. on a reducing balance basis
Office equipment	15 per cent. on a reducing balance basis
Computer software	On a straight line basis over 3 years
Computer equipment	On a straight line basis over 3 years

(e) *Leased assets*

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

2 Profit and loss account

2.1 The profit and loss account for the period ended 31 December 1998 is set out below:

	<i>Notes</i>	<i>1998</i> £
Turnover	5.1	167,005
Cost of sales		<u>(502,056)</u>
Gross loss		(335,051)
Selling costs		(69,529)
Administrative expenses		<u>(508,869)</u>
Operating loss	5.2	(913,449)
Interest payable	5.3	<u>(8,203)</u>
Loss on ordinary activities before taxation		(921,652)
Taxation		<u>—</u>
Loss on ordinary activities after taxation		<u><u>(921,652)</u></u>

All amounts relate to continuing activities.

There have been no recognised gains or losses, other than the results for the financial period, and all profits or losses have been accounted for on an historical cost basis.

3 Balance sheet

3.1 The balance sheet as at 31 December 1998 is set out below:

	Notes	1998 £
Fixed assets		
Tangible fixed assets	5.6	<u>75,291</u>
Current assets		
Debtors	5.7	72,325
Cash at bank		<u>6,806</u>
		79,131
Creditors: Amounts falling due within one year	5.8	<u>(933,313)</u>
Net current liabilities		<u>(854,182)</u>
Total assets less current liabilities		(778,891)
Creditors: Amounts falling due after more than one year	5.9	<u>(40,263)</u>
		<u>(819,154)</u>
Capital and reserves		
Share capital	5.12	102,498
Profit and loss account		<u>(921,652)</u>
	5.13	<u>(819,154)</u>
Analysis of shareholders' funds		
Equity interests		(819,154)
Non-equity interests		<u>—</u>
		<u>(819,154)</u>

4. Cash flow statement

4.1 The cash flow statement for the period ended 31 December 1998 is set below:

	<i>Notes</i>	<i>1998</i> £
Net cash inflow from operating activities	5.17	12,657
Returns on investments and servicing of finance		
Interest paid		(8,203)
Net cash flow from capital expenditure and financial investment		
Payments to acquire tangible fixed assets		(100,146)
Cash flow before use of liquid resources and financing		(95,692)
Financing		
Issue of ordinary share capital		102,498
Increase in cash and cash equivalents		<u>6,806</u>

5 Notes to the financial information

5.1 Turnover

The turnover and operating loss for the period was derived from the company's principal activity as was carried out wholly in the UK.

5.2 Operating loss

The operating loss is stated after charging or crediting:

	1998
	£
Hire of equipment – operating leases	41,569
Other operating lease rentals	11,213
Amounts payable to the auditors in respect of audit services	2,500
Amounts payable to the auditors in respect of non-audit services	17,638
Depreciation – owned assets	7,190
Depreciation – assets held under hire purchase or finance lease contracts	<u>17,665</u>

5.3 Interest payable

	1998
	£
Bank overdrafts	6,662
Hire purchase and finance lease interest	<u>1,541</u>
	<u>8,203</u>

5.4 Directors and employees

Staff costs during the year were as follows:

	1998
	£
Wages and salaries	225,954
Social security costs	<u>21,015</u>
	<u>246,969</u>

The average monthly number of employees, including directors, during the year were as follows:

	1998
	Number
Administration	5
Management	<u>2</u>
	<u>7</u>

Remuneration in respect of directors is as follows:

	1998
	£
Aggregate amount of emoluments paid in respect of qualifying services	71,290
Benefits in kind	<u>2,353</u>
	<u>73,643</u>

5.5 Tax on loss on ordinary activities

As a result of the loss for the period, the company has no liability to Corporation Tax.

5.6 Tangible fixed assets

	<i>Motor vehicles</i> £	<i>Office equipment</i> £	<i>Computer equipment</i> £	<i>Computer software</i> £	<i>Total</i> £
Cost					
Additions	76,511	11,725	7,171	4,739	100,146
31 December 1998	<u>76,511</u>	<u>11,725</u>	<u>7,171</u>	<u>4,739</u>	<u>100,146</u>
Depreciation					
Charged for the period	19,128	1,758	2,390	1,579	24,855
31 December 1998	<u>19,128</u>	<u>1,758</u>	<u>2,390</u>	<u>1,579</u>	<u>24,855</u>
Net book value					
Owned assets	4,387	9,967	4,781	3,160	22,295
Leased assets	52,996	—	—	—	52,996
31 December 1998	<u>57,383</u>	<u>9,967</u>	<u>4,781</u>	<u>3,160</u>	<u>75,291</u>

5.7 Debtors

	<i>1998</i> £
Trade debtors	18,353
Other debtors	42,531
Prepayments and accrued income	<u>11,441</u>
	<u>72,325</u>

5.8 Creditors: Amounts falling due within one year

	<i>1998</i> £
Bank overdrafts	287,100
Net obligations under hire purchase and finance lease contracts	17,136
Trade creditors	264,981
Amounts owed to related undertakings	50,113
Other taxes and social security	50,793
Directors' loan account	107,853
Other creditors	51,512
Accruals and deferred income	<u>103,825</u>
	<u>933,313</u>

Obligations under hire purchase and finance lease contracts are secured on the assets concerned.

5.9 Creditors: Amounts falling due after one year

	<i>1998</i> £
Net obligations under hire purchase and finance lease contracts	<u>40,263</u>
	<u>40,263</u>

5.10 Obligations under hire purchase and finance leases

	1998 £
Obligations under finance leases and hire purchase contracts are analysed as follows:	
Within one year	17,136
Between one and two years	17,136
Between two and five years	23,127
	<u>57,399</u>

Obligations under finance leases and hire purchase contracts are secured on the assets concerned.

5.11 Operating lease commitments

Financial commitments under non-cancellable operating leases will result in the following payments falling due in the next financial year:

	<i>Land and buildings</i> 1998 £	<i>Other</i> 1998 £
Expiring:		
Within one year	13,281	—
Within two to five years	—	167,098
After five years	—	—
	<u>13,281</u>	<u>167,098</u>

5.12 Share capital

	1998 £
Authorised	
8,000,000 Ordinary 'A' shares of 10p each	800,000
2,000,000 Ordinary 'B' shares of 10p each	200,000
	<u>1,000,000</u>
Allotted and fully paid	
650,000 Ordinary 'A' shares of 10p each	65,000
374,984 Ordinary 'B' shares of 10p each	37,498
	<u>102,498</u>

Movements during the period

	<i>Ordinary 'A' shares of 10p each</i>	<i>Ordinary 'B' shares of 10p each</i>	<i>Total</i>
Issues during the period	65,000	37,498	102,498
At 31 December 1998	<u>65,000</u>	<u>37,498</u>	<u>102,498</u>

The company was incorporated with an authorised share capital of 1,000,000 ordinary £1 shares of which 2 ordinary shares were issued on incorporation and a further 98 shares were issued for cash on 1 December 1997. On 1 October 1998 the share capital was reorganised such that the new authorised share capital comprised 8,000,000 'A' Ordinary 10p shares and 2,000,000 'B' Ordinary 10p shares. On the same date, the company issued 649,000 'A' Ordinary shares and 374,984 'B' Ordinary shares at par.

5.13 Reconciliation of the movement in shareholders' funds

	1998 £
Loss for the financial period	(921,652)
New share capital subscribed	102,498
Decrease in shareholders' funds	(819,154)
Closing shareholders' funds	<u>(819,154)</u>

5.14 Major non-cash transactions

During the period the company entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £70,661.

5.15 Related party transactions

During the period the company received a loan from Bannacount Exports Limited of £50,000 which was outstanding at the balance sheet date. Bannacount Exports Limited is owned by two of the company's directors.

During the period the company was charged a total of £195,836 by Plumloch Investments (UK) Limited as a recharge of expenses incurred by that company on behalf of VIP. Plumloch Investments (UK) Limited is owned by two of the company's directors.

During the period the company purchased services from Softbank Services Group of £180,691. Softbank Services Group is owed £96,303 by VIP at the balance sheet date. Softbank Services Group is a shareholder in the company.

5.16 Post balance sheet events

On 9 April 1999 the Company acquired the entire issued share capital of VIP in consideration of the issue of 13,786,000 ordinary shares of 10p each, all fully paid, and the Company agreeing to treat the amount unpaid (£37,500) on 500,000 Ordinary Shares, already in issue and paid up as to one quarter of their nominal value, as paid in full.

5.17 Reconciliation of operating loss to net cash inflow from operating activities

	1998 £
Operating loss	(913,449)
Depreciation	24,855
Increase in debtors	(72,325)
Increase in creditors	973,576
Net cash inflow from operating activities	<u>12,657</u>

Yours faithfully,

Baker Tilly
Chartered Accountants
and Registered Auditor

PART 3

PRO FORMA STATEMENT OF NET ASSETS

The following unaudited pro forma statement of the consolidated net assets of the Group is provided for illustrative purposes only.

	VIP at 31 December 1998 £'000	The Company at 12 April 1999 £'000	Adjustments £'000's	Pro forma consolidated net assets £'000's
Fixed assets				
Tangible fixed assets	75	—	—	75
Investments	—	1,416	(1,416)	—
	<u>75</u>	<u>1,416</u>	<u>(1,416)</u>	<u>75</u>
Current assets				
Debtors – due within one year	72	—	—	72
Cash at bank and in hand	7	13	2,350	2,370
	<u>79</u>	<u>13</u>	<u>2,350</u>	<u>2,442</u>
Current liabilities				
Amounts falling due within one year	933	—	—	933
Net current assets/(liabilities)	(854)	13	2,350	1,509
Creditors: Amounts falling due after more than one year	(40)	—	—	(40)
Net assets/liabilities	<u>(819)</u>	<u>1,429</u>	<u>934</u>	<u>1,544</u>

The pro forma balance sheet is based on the net assets of the Company as at 12 April 1999 and VIP as at 31 December 1998 as shown in the accountants' report set out in Part 2 adjusted for:

- the subscription of 3,929,000 Ordinary Shares at the Issue Price pursuant to the Placing to provide £2,750,300;
- the estimated costs of the Placing of £400,000.

No account is taken of the trading results of the Group for any period after the respective dates referred to above.

Affinity Internet Holdings PLC
Victoria House
64 Paul Street
London EC2A 4NA

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



Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

12 April 1999

Dear Sirs,

Affinity Internet Holdings PLC

We have reviewed the calculations and basis for preparation of the pro forma statement of net assets as at 12 April 1999 of Affinity Internet Holdings PLC and its subsidiary undertakings (the "pro forma statement"), for which the directors of Affinity Internet Holdings PLC are solely responsible. The pro forma statement, which has been prepared for illustrative purposes only, is set out in Part 3 of the Prospectus dated 12 April 1999.

In our opinion:

1. The pro forma statement has been properly compiled on the basis of preparation set out therein;
2. The pro forma statement is presented on a basis consistent with the accounting policies to be adopted by Affinity Internet Holdings PLC; and
3. The adjustments are appropriate for the purposes of the pro forma statement.

Yours faithfully,

Baker Tilly
Registered Auditor

PART 4

ADDITIONAL INFORMATION

1. Incorporation

- (a) 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.
- (b) The Company operates under the Companies Act 1985 and the regulations made under that Act.
- (c) The Company has two subsidiaries, Profileburst and VIP (together the "Subsidiaries"). VIP is a private company registered in England and Wales, having been incorporated on 3 July 1997 with the company registration number 3396810. All of VIP's issued share capital is fully paid up or credited as fully paid and is beneficially owned by the Company. Profileburst is a private company registered in England and Wales, having been incorporated on 18 February 1999 with company registration number 3715427. All of Profileburst's issued share capital is fully paid up or credited as fully paid up and is held by the Company.
- (d) The liability of the members of the Company is limited.
- (e) The registered office and principal place of business of the Company is at Victoria House, 64 Paul Street, London EC2A 4NA.
- (f) 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

- (a) 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	£1,428,600 divided into 14,286,000 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	£1,821,500 divided into 18,215,000 Ordinary Shares of 10p each

- (b) 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.
 - (i) On 19 March 1999, the two nil paid ordinary shares of the Company agreed to be taken by the subscribers on formation were transferred to T Plummer and W Lochner respectively, who each paid 25p to the Company, being one quarter of the amount due and unpaid in relation to the shares transferred into their respective names. On 26 March 1999, T Plummer and W Lochner 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 has now been satisfied in consideration of the transfer to the Company of T Plummer's and W Lochner's ordinary shares in the capital of VIP pursuant to the terms of a share for share exchange agreement (the "Share Exchange Agreement") with the Vendors

dated 9 April 1999 and executed as a deed, further details of which are set out in paragraph 7 below. The issued share capital of the Company as at 31 March 1999 was 50,000 shares of £1 each all of which were in issue paid up as to 25 pence each. Pursuant to the Share Exchange Agreement the Company has acquired all the issued ordinary shares of VIP from the Vendors, in consideration of the issue of ordinary shares in the Company. The Share Exchange Agreement provides for the allotment and issue by the Company of 13,786,000 Ordinary Shares, credited as fully paid, to the Vendors.

(ii) By ordinary and special resolutions of the Company passed on 1 April 1999:

- (1) 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;
- (2) the issued and unissued authorised share capital of the Company was subdivided into 50,000,000 Ordinary Shares of 10p each;
- (3) 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) up to a maximum amount of £5,000,000. This authority expires 15 months from the date on which this resolution was passed, but the Company may, before this authority expires, make an offer or agreement which would or might require relevant securities to be allotted after the authority expires; and
- (4) 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 is 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 Singer & Friedlander Limited 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 expires 15 months from the date on which this resolution was passed, but the Company may, before this authority expires, make an offer or agreement which would or might require relevant securities to be allotted after the authority expires.

- (e) Immediately following the Placing, the authorised share capital of the Company will be £5,000,000 divided into 50,000,000 Ordinary Shares, of which 18,215,000 will be issued and fully paid and 31,785,000 will remain unissued. Of the unissued share capital, the equivalent of ten 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 proposed Approved Share Option Scheme, details of which are set out in paragraph 3 below.
- (f) On Admission the Ordinary Shares will rank *pari passu* in all respects.
- (g) Save for Ordinary Shares reserved for issue under the proposed Approved Share Option Scheme, 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.

- (h) There are no listed or unlisted securities issued by the Company not representing share capital.
- (i) Application for admission to trading on AIM is being made in respect of all the issued Ordinary Shares and of all the Placing Shares. Other than the current application for admission of such Ordinary Shares and the Placing Shares to trading on AIM, the Ordinary Shares have not been 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.

3. Approved Share Option Scheme

The Company proposes to implement an Approved Share Option Scheme, subject to the approval of shareholders at the first Annual General Meeting of the Company, which is expected to be held in July 1999.

The Approved Share Option Scheme will be submitted for approval by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1998 ("Schedule 9") and may have to be amended to secure such approval of the Inland Revenue. No options can be granted under the Approved Share Option Scheme until the Inland Revenue has given its approval.

A summary of the proposed rules of the Approved Share Option Scheme is as follows:

Grant of options

Options can be granted at the discretion of the remuneration committee to eligible employees after the announcement of the Company's annual or half yearly results, or the date of their adoption, or immediately after a person first becomes an eligible employee.

Performance conditions

The exercise of all such discretionary options may be subject to performance conditions. Those performance conditions can be changed in the future by the remuneration committee to another objective criterion. The performance conditions may be amended in appropriate circumstances subject to Inland Revenue approval, so that any new performance conditions afford a more effective incentive but the amended conditions should not be more difficult to satisfy than the original performance conditions.

Eligible executives

Options can be granted to executive directors who are required to work under their contracts of employment for at least 25 hours per week, and to any other employee. Options cannot be granted to any employee precluded by paragraph 8 of Schedule 9, i.e. broadly a person who in the previous 12 months has directly or indirectly had an interest of 10 per cent. or more in the Company, being at that time a close company. Options cannot be granted to any eligible person within two years preceding his expected retirement date.

Subscription price

All options must be granted at their market value on the date of grant. The market value is the average of the middle market quotations of an Ordinary Share on the three dealing days immediately preceding the date of grant or, if the Ordinary Shares are not quoted on the Official List of the London Stock Exchange, which they would not be, such value as is agreed with the Inland Revenue Shares Valuation Division.

Limitations

The number of Ordinary Shares that can be the subject of options granted under the Approved Share Option Scheme and any other share scheme within the preceding 10 years cannot exceed 10 per cent. of the issued ordinary share capital of the Company for the time being.

The maximum value of options, based on the market price of an Ordinary Share at the date of grant, that can be granted to any employee under the Approved Share Option Scheme or any other share option scheme approved under Schedule 9 cannot exceed £30,000. Furthermore, options cannot be granted to any employee under the Approved Scheme Option Scheme if the value of options granted would exceed four times the employee's total annual remuneration.

Exercise of options

Options can only be exercised between the third and the tenth anniversaries of the date of grant. Options may, however, be exercised earlier, subject to the performance conditions being satisfied, if the option holder ceases to be an eligible employee by reason of injury, disability, redundancy, retirement on or after his expected retirement date or death.

The rules also provide for the early exercise of options, again provided that the performance conditions have been satisfied, in the event of a change of control of the Company, a demerger, a reconstruction scheme under Section 425 of the Act, where a person becomes bound or entitled under Section 428–430F of the Act to acquire the remaining issued share capital of the Company or where a resolution for the voluntary winding up of the Company is passed. The rules also contain provision to allow for the roll-over of options in the event of a change of control with the agreement of the acquiring company.

Adjustment of options

In the event of any variation in the share capital of the Company by way of capitalisation, rights issue, consolidation, sub-division, reduction or otherwise, the Company can, subject to written confirmation of the auditors and Inland Revenue approval, adjust the number of the Ordinary Shares the subject of options and the subscription price.

Scheme amendment

The Approved Share Option Scheme will be administered by the remuneration committee. The Board has power to alter the Approved Share Option Scheme rules subject to Inland Revenue approval in all cases. However, amendments cannot detrimentally affect option holders with regard to their subsisting options except with the consent of the option holders who, assuming they exercise their options in full, would become entitled to not less than $\frac{3}{4}$ of the nominal number of Ordinary Shares the subject of such options. The Board must also obtain prior approval of the Company in general meeting where a variation seeks to extend the class of persons eligible for the grant of options, or alter to the advantage of option holders rules relating to the grant of options, scheme limits, the adjustment of options and the subscription price except for minor amendments to benefit the administration of the Approved Share Option Scheme, to comply with or take account of any proposed or existing legislation or law or to obtain or maintain favourable tax, exchange control or regulatory treatment for option holders or the Company.

No options can be granted after the 10th anniversary of the date of adoption of the Approved Share Option Scheme.

ABI guidelines

The rules of the Approved Share Option Scheme comply with most of the guidelines of the ABI, save for the following:

- there are no 5, 3 or 2.5 per cent. limits on the number of Ordinary Shares over which options may be granted and which regulate the flow rate of option grants; and
- the exercise of options will not always be subject to performance conditions being satisfied.

Grant of options

As soon as possible following the implementation of the Approved Share Option Scheme, it is intended that options will be granted to directors and staff.

The options will be subject to the following conditions:

- (a) the option price will be the market value of the Ordinary Shares as agreed with the board of the Inland Revenue Shares Valuation Division;
- (b) options will not normally be capable of exercise in less than three years from grant and, if not exercised, will lapse after ten years; and
- (c) options will lapse if the option holder ceases to be employed by the Group.

It is proposed that employees, other than directors, will also be granted further options. Such options will be granted annually to employees, depending upon the employees' performance appraisals by the Directors and their lengths of service as determined by the Remuneration Committee, which options may be varied at the discretion of the Directors.

Options granted to employees will be subject to the same conditions as options granted to directors, save that the exercise of options by employees will not be contingent upon the achievement of the performance conditions referred to above.

4. Memorandum and Articles of Association

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

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.

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.

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.

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 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 Uncertificated Securities Regulations 1995.

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.

Redemption and pre-emption

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

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.

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.

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.

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 £10,000 per director 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 dependent 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 any one 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.

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.

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.

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 share 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.

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' and other interests

- (a) The interests of the directors and of the persons connected with them (within the meaning of section 346 of the Act) in the issued share capital of the Company at the date of this document, which are required to be entered in the register maintained under section 325 of the Act and to be notified by a director (or, in the case of a connected person, would be required to be notified by that person had he been a director) to the Company pursuant to section 324 or 328 of the Act, all of which are beneficial unless stated, are as follows:

The Company

<i>Director</i>	<i>Before the Placing</i>		<i>After the Placing</i>	
	<i>No of Ordinary Shares</i>	<i>Percentage of issued Ordinary Shares</i>	<i>No of Ordinary Shares</i>	<i>Percentage of issued Ordinary Shares</i>
Mr T Plummer	5,694,029	39.86	5,694,029	31.26
Mr W Lochner	5,694,029	39.86	5,694,029	31.26
Mr R F Southward	408,864	2.86	408,864	2.25
Mr A Redfern	204,432	1.43	204,432	1.12
Mr S P Barker	102,202	0.72	102,202	0.56

- (b) 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 1.96 per cent. interest for each of them in the enlarged issued share capital of the Company following the Placing.
- (c) Details of the options proposed to be granted to directors are set out in paragraph 3 above.

- (d) Save as set out in paragraphs 5(a), 5(b) and 5(c) above, none of the directors has any interest in the share capital of any company in the Group.
- (e) Each of the following directors has a service agreement with the Company which, in the case of T Plummer and W Lochner, is not capable of determination on less than two years' notice from the date of the agreement and thereafter is only capable of determination by either party giving not less than 18 months' written notice to the other, and in the case of the other directors, is not capable of determination on less than 12 months' notice from the date of the agreement and thereafter is only capable of determination 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>
Mr T Plummer	9 April 1999	20 April 1999	£75,000*
Mr W Lochner	9 April 1999	20 April 1999	£75,000*
Mr R F Southward	9 April 1999	20 April 1999	£60,000
Mr A Redfern	9 April 1999	20 April 1999	£45,000
Mr S P Barker	9 April 1999	20 April 1999	£45,000

† commencement of employment is conditional on Admission, which is expected to be 20 April 1999

* net of standard rate income tax

- (i) T Plummer is also entitled to the benefit of a company car, the acquisition costs of which must not exceed £40,000, and a monthly pension contribution made by the Company, 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 shall be entitled to an annual bonus the amount and terms of which shall be agreed annually with the Board.
- (ii) 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, 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 shall be entitled to an annual bonus the amount and terms of which shall be agreed annually with the Board.
- (iii) R F 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, 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 shall be entitled to an annual bonus the amount and terms of which shall be agreed annually with the Board.
- (iv) 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, 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 shall be entitled to an annual bonus the amount and terms of which shall be agreed annually with the Board.
- (v) S P 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, 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 shall be entitled to an annual bonus the amount and terms of which shall be agreed annually with the Board.

- (f) Save as stated in paragraph 5(e) above, there are no service agreements existing or proposed between any director and the Company or any of its Subsidiaries (as defined in paragraph 1(c)) other than service agreements expiring, or determinable by the employing company without payment of compensation, within one year.
- (g) The aggregate of the remuneration paid including benefits in kind granted to the directors and proposed directors of the Company for the period ended 31 December 1998 was £73,643. It is estimated that the aggregate remuneration to be paid including benefits in kind to be granted to the directors and proposed directors of the Company in the current financial year under arrangements currently in force will not exceed £500,000.
- (h) 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.
- (i) 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.
- (j) Save as disclosed in paragraphs 5(q), 5(r) and 5(s), no director has 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.
- (k) 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 the directors.
- (l) 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>
T Plummer	Plumloch Investments (UK) Limited Wispa (UK) Limited Bannaccount Exports Limited Original Creations Limited Wayne Lochner Associates Limited HotSPACE (UK) Limited	Plumloch Investments Limited Plumloch Communications Limited
W Lochner	Plumloch Investments (UK) Limited Wispa (UK) Limited Bannaccount Exports Limited Original Creations Limited Wayne Lochner Associates Limited HotSPACE (UK) Limited	Plumloch Investments Limited Plumloch Communications Limited
R F Southward	None	None
A Redfern	Dezigncom Technology Limited	Re-Engineering Maintenance Conversions Limited Excalibur Software Products Limited
S P Barker	Oakhurst Accounting Services Limited	None

- (m) A Redfern was also a director of 4GL Systems Limited, which went into receivership in 1990. T Plummer and W Lochner were also 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.

- (n) Save as disclosed in paragraph 5(m), 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.
- (o) Save as disclosed in paragraph 5(s) of this document, no person (other than a professional adviser referred to in this document or trade suppliers dealing with members of the Group) has:
- (i) received, directly or indirectly, from any member of the Group within the 12 months preceding the Company's application for Admission; or
 - (ii) entered into any contractual arrangement (not otherwise disclosed in this document) to receive, directly or indirectly, from any member of the Group on or after Admission any of the following:
 - (A) fees totalling £10,000 or more;
 - (B) securities in the Company with a value of £10,000 or more calculated by reference to the Issue Price; or
 - (C) any other benefit with a value of £10,000 or more at the date of Admission.
- (p) Save as disclosed in paragraph 7(j) and in this paragraph 5, the Directors are 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 or of any other person who, directly or indirectly, jointly or severally, could exercise control over the Company.
- (q) The Company obtained accounting services from its Auditors, Messrs Masons, during 1998. During this period those services were supplied to Messrs Masons by S P Barker, prior to the commencement of his formal employment with VIP on 1 March 1999. S P Barker's brother is a partner in Masons.
- (r) A Redfern, as a director of Dezincom Technology Limited, is interested in an arrangement between that company and VIP pursuant to which commissions are payable to the company by VIP.
- (s) Following Admission the Company intends to repay indebtedness of £50,000 to Bannaccount Exports Limited, a subsidiary of Plumloch Investments (UK) Limited, which in turn is a company controlled by T Plummer and W Lochner.

6. Taxation

The following information is based upon the law and practice currently in force in the United Kingdom. The comments are of a general nature only, are not a full description of all relevant tax considerations and may not apply to persons who do not hold their Ordinary Shares as investments. Any person who is in any doubt as to his tax position should consult a professional

adviser concerning his tax position in respect of the acquisition, holding or disposal of Ordinary Shares. The following summary assumes that the Company does not elect to pay "Foreign Income Dividends" and does not intend to pay dividends related to transactions in securities or certain other distributions which will be deemed to be "Foreign Income Dividends" under Schedule 7 to the Finance Act 1997.

Dividends

(a) UK resident shareholders

Under current UK tax legislation, the Company is not required to withhold tax from dividend payments made by the Company to shareholders. The Company must, however, account to the Inland Revenue for an amount of advance corporation tax ("ACT") when it pays a dividend. The current rate of ACT is one quarter of the amount of the dividend paid. ACT will however be abolished from 6 April 1999.

Currently the aggregate of the dividend received by a UK resident individual shareholder and the associated tax credit (the "gross dividend") forms part of the individual's total income for UK tax purposes and is currently subject to UK income tax at the rate of 20 per cent. or, in the case where and to the extent that the shareholder's total income (including the gross dividend) falls above the threshold of the higher rate of income tax, at the higher rate (currently 40 per cent.). The associated tax credit is equivalent to 20 per cent. of the gross dividend and is set off against the individual's overall UK income tax liability. As a consequence, UK resident shareholders who are higher rate tax payers will have an additional tax liability equal to 20 per cent. of the gross dividend. Other UK resident individuals who are basic rate tax payers will have no further UK income tax liability in respect of a dividend and may to the extent that such individual's total tax credits exceed their overall income tax liability, claim the excess from the Inland Revenue. The Finance Act 1998 makes changes to the rate at which dividends will be taxed in the hands of UK resident individual shareholders and the size of the tax credits available. The rate of tax credit will be reduced to 10 per cent. of the gross dividend. These changes will take effect from 6 April 1999. However, the net position of such shareholders will remain the same, save that repayment of all or part of the tax credit will no longer be available. For dividends paid to trustees of UK resident discretionary trusts, the gross dividend will be subject to UK income tax, currently at 34 per cent. (25 per cent. from 6 April 1999) with a tax credit equal to 20 per cent. of the gross dividend.

A UK resident corporate shareholder would generally not be liable for UK corporate tax on any dividend and a dividend received and associated tax credit will normally constitute franked investment income. Such income should be available for offset against further payments which will arise on its distribution. After the abolition of ACT from 6 April 1999, UK resident corporate shareholders will continue not to pay tax on dividends received from other UK companies. Pension funds, unit trusts and open ended investment companies are no longer entitled to the repayment of tax credits. Charities will be able to reclaim tax credits in the case of dividends paid before 6 April 1999 but not in respect of dividends paid on or after that date. However, in respect of tax years 1999/2000 to 2003/2004 there are transitional provisions for compensating charities for their inability to reclaim the tax credit in respect of dividend income.

(b) Non UK resident shareholders

Special provisions apply to individuals who are not resident in the UK but who are Commonwealth citizens, residents of the Isle of Man or the Channel Islands, or nationals of any state in the European Economic Area or fall within certain other classes. Otherwise, the right of a shareholder who is not resident in the UK to claim any part of a tax credit will depend on the existence and terms of any double taxation treaty between the UK and the jurisdiction in which that person is resident. Shareholders who are not resident in the UK should consult their own tax advisers concerning their liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so. The decrease in the rate of the tax credit to 10 per cent. from 6 April 1999 will generally reduce or eliminate the amount in respect of the tax credit that may be paid under the terms of the double taxation agreement from that date.

(c) Stamp Duty

The issue and allotment of Ordinary Shares by the Company pursuant to the Placing will not give rise to a charge to stamp duty or stamp duty reserve tax.

The conveyance or transfer on sale of Ordinary Shares following the allotment of shares and issue of definitive share certificates will normally be subject to stamp duty at a rate of 50p per £100 (or part thereof) of the amount or value of the consideration. In his recent Budget on 9 March 1999, the Chancellor of the Exchequer announced proposals under which stamp duty will be rounded up to a multiple of £5.00; it is however currently not clear when these proposals will take effect. Where an agreement to purchase Ordinary Shares is not, before the seventh day of the month following the month in which the agreement was entered into, completed by a duly stamped transfer in favour of the purchaser under the agreement a charge to stamp duty reserve tax ("SDRT") will arise at a rate of 0.5 per cent. of the amount or value of the consideration. The new proposals in respect of roundings will not apply to SDRT. Any SDRT paid can be reclaimed if a duly stamped instrument is entered into within six years of the agreement and the appropriate stamp duty paid. Where the sale transaction takes place in CREST, generally SDRT will be automatically deducted and no stamp duty will arise.

A shareholder who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

The Company will, after Admission, apply for relief from stamp duty (which would otherwise be payable at 0.5 per cent. on the market value of the Ordinary Shares allotted and issued pursuant to the share for share exchange agreement referred to at paragraph 7(f) of Part 4) on the transfers to it of the Vendors' ordinary shares in the capital of VIP pursuant to that agreement. No stamp duty will be payable by any of the Vendors.

7. Material contracts

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

- (a) An agreement dated 30 January 1998 and made between (1) Cable & Wireless and (2) VIP under which Cable & Wireless agreed to provide certain telecommunications services and facilities to VIP. Such services incorporated Cable & Wireless's standard terms and conditions.
- (b) An agreement dated 4 February 1998 and made between (1) ICL and (2) VIP under which ICL agreed to provide internet services and software to VIP in addition to a non-exclusive licence for the use of ICL Internet services.
- (c) An agreement dated 21 April 1998 and made between (1) Cisco Systems Capital and (2) VIP under which VIP leases equipment necessary to the Internet provider service business.
- (d) An agreement dated 5 March 1999, effective from 4 May 1998, and made between (1) Clientlogic and (2) VIP pursuant to which Clientlogic has agreed with VIP to operate as a technical support and customer service centre and to register customers via the telephone and transfer data to VIP in a prescribed format on a monthly basis. There was an initial set-up charge and thereafter monthly charges for technical and administrative support and charges in respect of programme management payment processing and administration.
- (e) A lease of Part Second Floor, Victoria House, 64 Paul Street, London EC2 dated 29 September 1998 between (1) Gordon Ionwy David Llewelyn and Clive Hugh Zietman (together the "Lessor"), and (2) VIP (the "Lessee") pursuant to which the Lessor agreed to demise the "Demised Premises" (as such term is defined therein) in consideration of the Lessee paying a yearly rent of £26,562.50 in addition to a service charge and any gross premiums paid by the Lessor for insuring against loss of rent. The Demised Premises comprise 2,125 square feet. VIP is in negotiation with the Lessor for the grant of a new lease relating to the Demised Premises and an additional area of 1,460 square feet for a term of three years at a rent of £50,000 per annum (in year one).

- (f) A share for share exchange agreement dated 9 April 1999 and made as a deed between (1) 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 for the issue and allotment to the Vendors of an aggregate of 13,786,000 Ordinary Shares, credited as fully paid, and for 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.
- (g) A placing agreement dated 12 April 1999 between (1) the Company, (2) the directors and (3) Charles Stanley pursuant to which Charles Stanley agreed to use its reasonable endeavours to procure conditional placees to subscribe for 3,929,000 new Ordinary Shares at 70 pence a share. In consideration for these services the Company has agreed to pay Charles Stanley fees and commissions totalling £75,000 plus commission plus VAT as applicable.
- (h) An agreement in a letter form and dated 12 April 1999 from Charles Stanley and addressed to the Directors whereby Charles Stanley undertook to provide services to the Company as nominated adviser and nominated broker in relation to the Company's continuing status as a company whose securities are traded on AIM. The agreement provides for an annual fee payable to Charles Stanley of £15,000 plus VAT.
- (i) An agreement dated 1 April 1999 ("Facility Agreement") between (1) VIP and (2) Singer & Friedlander Limited ("Singers") for the provision of a working capital facility of £750,000. VIP has executed a fixed and floating charge debenture in favour of Singers to secure the indebtedness. Additionally, repayment of monies owed to Singers has been guaranteed by Wayne Lochner and Terry Plummer, acting as joint and several guarantors.
- (j) An agreement dated 1 April 1999 between (1) the Company and (2) Singers giving Singers a warrant to subscribe for Ordinary Shares representing between 1 and 4 per cent. of the enlarged issued share capital of the Company. The number of Ordinary Shares which Singers is eligible to subscribe for depends on the level of borrowings drawn down under the Facility Agreement. Singers has a warrant in relation to 1 per cent. of the Ordinary Shares and will be entitled to subscribe for 2 per cent., 3 per cent. or 4 per cent. of the enlarged issued share capital of the Company, if borrowings under the Facility Agreement are £249,999, between £250,000 and £499,999 or between £500,000 and £750,000 respectively.

8. General

- (a) The total proceeds of the Placing are expected to amount to £2,750,300. The expenses of or incidental to the Placing are payable by the Company and are estimated to amount to approximately £400,000.
- (b) The minimum amount which, in the opinion of the Directors, must be raised by the Placing in order to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 of the Regulations is £2,750,300 which will be applied as follows:

(i) estimated preliminary expenses of the Placing and commissions	£400,000
(ii) repayment of monies borrowed in respect of (i) above	£nil
(iii) working capital	£2,300,300
(iv) repayment of indebtedness of £50,000 to Bannaccount Exports Limited, a subsidiary of Plumloch Investments (UK) Limited, a company controlled by T Plummer and W Lochner	£50,000

There are no amounts to be provided in respect of the matters referred to above otherwise than out of the proceeds of the Placing. No property has been purchased or is to be purchased by the Group, the purchase price of which is to be defrayed in whole or in part out of the proceeds of the Placing.

- (c) In the opinion of the Company, having made due and careful enquiry and having regard to the net proceeds of the Placing receivable by the Company, the working capital available to the Group will, from Admission, be sufficient for its present requirements.
- (d) Save as disclosed in this document, there has been no significant change in the financial position or prospects of the Group since 31 December 1998 and there are no significant investments in progress.
- (e) As at the close of business on 19 March 1999, the Group had total indebtedness of £469,100 made up of a secured bank overdraft of £398,900 and hire purchase of £70,200.

Save as aforesaid, as at the close of business on 19 March 1999, the Group did not have any loan capital (including term loans) outstanding, or created but unissued, or any outstanding mortgages, charges, debentures or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities and acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or other contingent liabilities.

- (f) W Lochner and T Plummer are or may be promoters of the Company. Save as disclosed in paragraph 5(s) 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.
- (g) Neither the Company nor any other member of the Group is engaged in any legal or arbitration proceedings nor, as far as the directors are aware, are any legal or arbitration proceedings, active, pending or threatened against, or being brought by, the Company or any other member of the Group which may have or have had a significant effect on the Group's financial position.
- (h) Save as disclosed in this paragraph 8, the directors are unaware of any exceptional factors which have influenced the Group's recent activities.
- (i) No intellectual property rights are registered but the Group has received no objection to the use of the names "Affinity Internet Holdings PLC" and "Virtual Internet Provider Limited." Save for the material contracts described in paragraph 7 of Part 4 of this document, the Group does not depend on any intellectual property for its operations.
- (j) Other than as disclosed in this document, there have been no significant recent trends concerning the development of the Company's or VIP's business nor any significant acquisitions or disposals of assets since 31 December 1998.
- (k) The directors have undertaken not to dispose of any interest in securities they hold in the Company for a period of one year from the date of Admission, subject to the exceptions provided for in the Rules.
- (l) Baker Tilly has given and not withdrawn its written consent to the issue of this document with the inclusion of its report, the reference to such report, and to its name, in such forms and contexts in which they appear.
- (m) Masons has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its report, references to such report, and to its name, in such forms and contexts in which they appear.
- (n) Charles Stanley & Company Limited has given its written consent to the issue of this document with the inclusion herein of the references to its name, in such forms and contexts in which they appear.

(o) Copies of the following documents may be inspected at the offices of Hammond Suddards of 7 Devonshire Square, Cutlers Gardens, London EC2M 4YH and at the Company's office which is at Victoria House, 64 Paul Street, London EC2A 4NA during usual business hours on any weekdays (Saturdays and public holidays excepted) for a period of 14 days following the date of this document:

- (i) The Memorandum and Articles of Association of the Company;
- (ii) The audited accounts for VIP for the period ended 31 December 1998;
- (iii) The accountants' report contained in Part 2;
- (iv) The directors' service and other agreements referred to in paragraphs 5 (e) and (f) of this Part 4;
- (v) The material contracts referred to in paragraph 7 of this Part 4; and
- (vi) The written consents referred to in paragraph 8 of this Part 4.

(p) **Availability of admission document**

Copies of this admission document are freely available to the public from the Company's office at Victoria House, 64 Paul Street, London EC2A 4NA and from the offices of Charles Stanley at 25 Luke Street, London EC2A 4AR up to and including 1 May 1999.

The date of this admission document is 12 April 1999